Finance Subcommittee Agenda

City of Campbell, 70 N. First Street, Campbell, California

NOTE: To protect our constituents, City officials, and City staff, the City requests all members of the public follow the guidance of the California Department of Health Services', and the County of Santa Clara Health Officer Order, to help control the spread of COVID-19. Additional information regarding COVID-19 is available on the City's website at www.campbellca.gov.

This Special Meeting of the Finance Subcommittee will be conducted in person as well as telecommunication and is compliant with provisions of the Brown Act.

Those members of the public wishing to participate virtually can access the meeting at:
https://campbellca gov.zoom.us/j/87366302107?pwd=TFROUDZkbGZQVmw1Q0J6NWl0WHBjdz09
Meeting ID: 873 6630 2107 Passcode: 278386

Members of the public may attend this meeting in person at Campbell City Hall.

Public comment will also be accepted via email at Finance@cityofcampbell.com prior to the meeting. Please indicate in the subject line "FOR PUBLIC COMMENT." Written comments received by 9:00 a.m. on the day of the meeting will be posted on the website and distributed to the Sub-Committee before the meeting.

SPECIAL MEETING OF THE CAMPBELL FINANCE SUB-COMMITTEE

Monday, August 21, 2023 11:00 a.m.
Campbell City Hall
Ralph Doetsch Conference Room
70 North First Street, Campbell CA 95008

CALL TO ORDER

PUBLIC COMMENTS

1. **Review of Annual Investment Policy and Strategy Updates**

   Recommended Action: Receive and accept FY 2024 Annual Investment Policy and Strategy Updates and provide feedback and recommendation for acceptance by the City Council.

ADJOURN

In compliance with the Americans with Disabilities Act, assistive listening devices are available for meetings held in the Council Chambers. If you require accommodation to participate in the meeting, please contact Will Fuentes in the Finance Department, at willf@campbellca.gov or (408) 866-2113.

MEMORANDUM

City of Campbell

Finance Department

To: Finance Sub-Committee Date: August 21, 2023

From: Will Fuentes, Finance Director

Subject: Annual Investment Policy and Investment Strategy Update

A Finance Sub-Committee Meeting has been scheduled for Monday, August 21st at 11:00 am in the Doetsch Conference Room to discuss the annual review of the ***Investment Policy*** update.

California Government Code recommends that the City Council review the City's Investment Policy annually. The City's Investment Policy requires the Finance Sub-Committee to review any proposed changes and make recommendations to the Council accordingly. It also requires the Sub-Committee to review the ***Investment Strategy*** annually as well and share a summary of that strategy with Council.

The Investment Policy is updated annually to conform to California Government Code (CGC) Section 53600 et. seq. Any statutory revisions made during the previous calendar year that impact the City policy are incorporated as necessary and shown in the attached Redline and Clean versions of the policy. In addition to statutory revisions, staff is recommending several revisions below. All page numbers reference the Redline version:

- Header – Modified to September 5, 2023 throughout to reflect ***tentative Council review and approval date***.

- Page 1 – Clarified under Section II (Scope) that the investment of debt proceeds is subject to the ***governing documents of debt issuances***, which supersede the City's Investment Policy. Nevertheless, those governing documents are often as stringent or more stringent than the City's Investment Policy.

- Page 2 – A majority of the City's funds are invested with the Local Agency Investment Fund (LAIF); a highly liquid, stable, and secure state investment pool. However, other similar ***investment pools*** exist and staff recommends revising this section to allow for their use in addition to or in place of LAIF if it makes financial sense and the pools are rated AAA or equivalent.

- Page 2 – To align with CGC, revised the word "Yield" to "***Return***".

- Page 3 – ***Delegation of Authority*** is recommended to be revised to allow for the use of ***qualified external investment advisors***. Staff believes that it would be beneficial to the City to contract with a qualified external investment advisor to manage certain portions of the City's investment portfolio. For a portfolio of Campbell's size, such services may cost between $30,000 to $50,000 annually.

However, based on research, staff feels that an external investment adviser could generate additional investment returns over and above their fees, maintain the City's primary goals of safety and liquidity, provide additional expert support and access to daily investment data and tools, improve monthly, quarterly, and annual investment reporting, and help staff to navigate the complexities of investing Measure O bond proceeds; maximizing their allowable investment potential while also providing timely access to the bond funds right as they are needed to pay for construction and other related project expenses. By modifying this section of the Investment Policy, the City is not obligated to utilize an external investment advisor. This modification only allows for their use, subject to further staff due diligence, submittal and evaluation of vendor proposals, and approval of a potential contractual agreement by the City Council at a future meeting. Other sections of the Investment Policy have also been modified to align with this recommended change.

- Pages 3, 4, and 10 – The title of ***Finance Manager*** has been revised to ***Assistant Finance Director*** throughout the Investment Policy to align with the recently approved reclassification of the position.

- Page 4 – The title of ***Sr. Accountant*** has removed throughout the Investment Policy since the position was downgraded to ***Accountant*** in Fiscal Year (FY) 2019-20.

- Page 5 – Enhanced the definition of the ***Prudent Investor*** standard based on the recommendations of an external investment advisor and to meet best practice.

- Page 5 – If the City engages an external investment, the selected firm may more actively manage the City's portfolio and need to sell purchased securities at a loss before their scheduled maturity, especially in a rising interest rate environment. Thus, to allow for flexibility and efficiency, staff recommends ***removing the requirement of having the City Manager approve all realized losses in writing***. Nevertheless, staff would work with the external investment advisor to report all losses to the City Manager and City Council during monthly and quarterly reporting.

- Page 5 – Based on the recommendations of an external investment advisor and to meet best practice, clarified that when ***conflicts arise between the City's Investment Policy and CGC*** that the more stringent policy will prevail.

- Page 7 – Clarified sections relating to ***Prime Commercial Paper*** to be consistent with latest updates to CGC.

- Page 7 – Clarified sections relating to ***Eligible Banker Acceptances*** to be consistent with latest updates to CGC.

- Page 9 – Clarified requirements for issuers of ***Collateralized Mortgage Obligations*** when they are not defined in other sections of the Investment Policy.

- Page 9 – Added section to allow for purchasing ***Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA)*** organized pursuant to Section 6509.7 of the CGC. This inclusion would allow for investment in such JPA investment pools as the California Asset Management Program (CAMP); an investment pool similar to LAIF, but set up with a different JPA structure.

- Page 10 – Since investment purchases do not become final until the sale is settled several days or weeks after a purchase transaction has been made and City funds transferred, modified restriction of not investing in securities maturing more than five years from the ***date of settlement as opposed to the date of purchase***.

- Page 10 – Consistent with changes to the CGC and to allow for adequate time for quarterly investment data to be received and analyzed by City staff, modified the requirement to submit ***Quarterly Investment Reports*** to the City Council from 30 days to 45 days.

- Page 11 – Consistent staff's recommendation to allow for the use of an external investment advisor, revised section relating to ***Selection of Broker/Dealers*** to allow an external investment advisor to choose to their own Broker/Dealers since they often have pre-established relationships with Broker/Dealers and can get better volume pricing than the City could on their own.

- Pages 12 and 13 – Modified ***Authorized Securities and Transactions*** for Campbell Bonds, State Obligations and California Local Obligations to be consistent with previous sections of the Investment Policy which allowed for 10% investment per issuer as opposed to 5%. Also modified row relating to LAIF to remove a maximum maturity since LAIF funds are highly liquid, same day funds and have no maturity. And lastly, consistent with previously recommended revisions, added shares of joint power authorities to allowable investment types.

- Pages 13 and 14 – Clarified that per State law ***cities with less than $100 million in assets under management may not invest more than 25% of idle cash in commercial pape***r. Also clarified this in the Glossary under Commercial Paper.

- Page 14 – Consistent changes in LAIF rules, raised ***limitation for any one LAIF account*** from $65 million to $75 million.

The attached Investment Strategy also provides a review of the City's current strategy with respect to the investment portfolio and staff recommendations for the upcoming year. ***Staff's recommended Investment Strategy for FY 2023-24 is similar to the prior year, but adds the recommendation that use of external investment advisors be allowed and that vendor proposals be obtained for future Council consideration.*** Additionally, an economic review of the past year and summary of current economic conditions is provided.

Attachments:	Investment Policy Investment Strategy Memorandum

Distribution:
Anne Bybee, Vice Mayor
Sergio Lopez, Council Member
Brian Loventhal, City Manager

City of Campbell, California

Investment Policy **Date: ~~August 16~~September 5, 20233~~2~~**

I. PURPOSE

It is the policy of the City of Campbell to invest public funds in a prudent manner which conforms to all statutes governing the investment of public funds while providing security and meeting the daily cash flow needs of the City.

The purpose of this document is to identify the policies guiding prudent investment of the City's temporarily idle funds and to establish guidelines and objectives for suitable investments including delegation of authority, prudence, monitoring and reporting, policy review, diversification, eligible securities, safekeeping, collateralization, selection of financial institutions and broker/dealers, glossary of terms, and forms utilized.

II. SCOPE

A. This investment policy shall apply to all financial assets, investment activities, and debt issues (excluding those debt issues subject to governing documents) of the City of Campbell including the following fund types:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Projects Funds
5. Internal Service Funds
6. Trust and Agency Funds

B. The policy does not cover funds held by the Public Employees Retirement System nor funds of the Deferred Compensation program.

III. OBJECTIVES

A. It is the objective of this policy to provide a system which will monitor and forecast revenues and expenditures so that the City can invest temporarily idle funds to the fullest extent possible. The temporarily idle funds shall be invested in accordance with provisions of California Government Code Section 53600 et. seq.

B. The City adheres to conservative investment philosophies including investment of all idle cash, preservation of principal at the risk of yield, maintenance of adequate liquidity to meet anticipated cash flow needs and diversification to avoid the risks inherent in over investing in any one asset class.

C. This policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates. It further prohibits reverse repurchase agreements, use of derivative products, and/or leveraging of the portfolio.

D. The City shall ensure the safety of invested funds by limiting credit and interest rate risks. The three primary objectives of the City's Investment Policy in order of priority are:

1. **Safety:** Safety of principal is the foremost objective of the City of Campbell. Safety and the minimizing of risk associated with investing refer to attempts to reduce the potential for loss of principal, interest or a combination of the two. The City ensures safety of its invested idle funds and limits credit and interest rate risks by following these guidelines (all of which are detailed within the body of the Investment Policy):

   a. Investing only in those instruments that are generally accepted as safe investment vehicles for local government as authorized by this Policy,

   b. Carefully reviewing the qualifications and financial strength of financial institutions and broker/dealers prior to conducting business with them,

   c. Diversifying the investment portfolio as prescribed within this Policy,

   d. Structuring the portfolio such that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation,

   e. Limiting the final maturity of purchased securities to five years; limiting the weighted average maturity of the portfolio to three years, and

   f. Ensuring the physical security or safekeeping of the City's investments.

2. **Liquidity:** Liquidity is the second most important objective of the City's Policy. Liquidity refers to the ability to convert an investment to cash promptly without loss of principal and minimal loss of interest. For example, this is accomplished by maintaining sufficient balances in liquid investment products, such as the Local Agency Investment Fund (LAIF) or other local government investment pools which offer same day availability, or by ~~investing either in the Local Agency Investment Fund (LAIF) with same day availability, or~~ investing in securities with active secondary or resale markets.

3. **~~Yield~~Return:** ~~Yield~~ Return on the City's portfolio is last in rank among investment objectives. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. STRUCTURE AND RESPONSIBILITY

A. DELEGATION OF AUTHORITY:

1. The City Council assumes direction over the City’s investments, and assigns management responsibility for the investment program to the Finance Director, who shall serve as Chief Fiscal Officer, and have legal custody of funds. The Finance Director may provide for delegation of his/her responsibilities to other

persons under his/her control responsible for investment transactions, including the delegation of certain portions of the investment portfolio to one or more external and qualified investment advisers or such other designee approved by the Finance Sub-Committee. External investment advisors who are engaged b by the City shall be registered under the Investment Advisers Act of 1940 and shall assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy. ~~designation of certain portions of the investment portfolio related to debt financing to be administered by professional portfolio administrators, i.e. California Arbitrage Management Program (C.A.M.P.) or such other designated administrators approved by the Finance Sub-Committee~~.

B. POLICY REVIEW:

1. This Investment Policy shall be reviewed and approved annually as recommended by California Government Code Section 53600 et. seq.

C. RESPONSIBILITIES:

1. Responsibilities of the City Council: The City Council consists of a Mayor and four Council members and is the policy setting board for the City of Campbell. The City Council has considered and adopted a written Investment Policy for the City of Campbell. Pursuant to the City's Financial Policies, the City Council shall on an annual basis, approve necessary changes to the Investment Policy as recommended by the Finance Sub-Committee. On a quarterly basis, the City Council shall receive, review and accept the Quarterly Investment Report submitted by the Finance Department.

2. Responsibilities of the Finance Sub-Committee: The Finance Sub-Committee consists of two Council members, the City Manager, the Finance Director, and the ~~Finance Manager~~Assistant Finance Director. On an annual basis, this Sub-Committee shall review necessary revisions to the established Investment Policy of the City of Campbell and make a recommendation to the City Council accordingly. No less than once per fiscal year, the City's investment strategy will be reviewed by the Finance Sub-Committee. A summary of the investment strategy will be shared with the City Council at that time. Should market activity encourage revisions in the City's strategy, the Finance Sub-Committee shall be advised accordingly.

3. Responsibilities of the City Manager: The City Manager is responsible for directing and supervising the Finance Director. He/she has the responsibility of keeping the City Council fully advised as to the financial condition of the City.

a. Wire Transfer Authority: The City Manager has unlimited wire transfer authority for a single transaction. Such a transaction requires joint review, approval and verification in advance by the City Manager and Finance Director. The transaction shall be highlighted in the Quarterly Investment Report to Council.

4. Responsibilities of the Finance Director: The Finance Director is appointed by the City Manager and serves as Chief Fiscal Officer. He/she is subject to the direction and supervision of the City Manager. The Finance Director is charged with the responsibility for the conduct of all Finance Department functions including the custody and investment of City funds, and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and policies. Refer to "Delegation of Authority" for additional information pertaining to delegation of investment responsibilities.

a. **Wire Transfer Authority:** The Finance Director has wire transfer authority not to exceed $5,000,000 for a single transaction. Such a transaction shall be reviewed, approved and verified in advance by the City Manager. The transaction shall be highlighted in the Quarterly Investment Report to Council.

5. **Responsibilities of the ~~Finance Manager~~Assistant Finance Director:** The ~~Finance Manager~~Assistant Finance Director is appointed by the Finance Director and serves as the Investment Manager for the City pursuant to specific delegation authority provided by this Investment Policy. He/she is subject to the direction and supervision of the Finance Director and is charged with the responsibility and conduct of the day-to-day accounting and cash management functions of the City. This includes the custody and investment of City funds, and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and policies. Refer to "Delegation of Authority" for additional information pertaining to delegation of investment responsibilities.

Implementation and maintenance of the Investment Policy are the responsibility of this individual. On an annual basis, the ~~Finance Manager~~Assistant Finance Director shall present to the Finance Sub-Committee, recommended changes to the City's Investment Policy. On a quarterly basis, the ~~Finance Manager~~Assistant Finance Director shall present to the City Council, via the City Manager, a Quarterly Investment Report. Refer to "Monitoring and Reporting" for additional information.

a. **Wire Transfer Authority:** The ~~Finance Manager~~Assistant Finance Director has wire transfer authority not to exceed $3,000,000 for a single investment transaction. Such a transaction shall be reviewed, approved and verified in advance by the Finance Director, and shall be reported in the Quarterly Investment Report to Council.

6. **Responsibilities of the Accountant ~~and Sr. Accountant~~:** The Accountant is appointed by the Finance Director and is subject to the direction and supervision of the ~~Finance Manager~~Assistant Finance Director. The Accountant carries out the specific instructions provided by the ~~Finance Manager~~Assistant Finance Director regarding the purchase and sale of securities in accordance with principles of sound treasury management and in accordance with applicable laws and policies. Accounting for the various investment transactions is the responsibility of the Accountant.

a. **Wire Transfer Authority:** The Accountant ~~and Senior Accountant~~ have wire transfer authority not to exceed $2,100,000 for a single investment transaction. The standard operating procedure is that all cash and investment wire transfers made by the Accountant and Senior Accountant are reviewed, approved and verified in advance by the ~~Finance Manager~~Assistant Finance Director, and are reported in the Quarterly Investment Report to Council.

D. Prudence:

1. Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the Prudent Investor Standard~~It is the understanding of the individuals holding positions with investment responsibilities that the "prudent investor" rule applies~~. This means that all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.~~investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital and income to be derived~~.

2. The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally riskless and that the investment activities of the City are a matter of public record. Accordingly, while the intent of the City is to hold purchased securities to maturity, the City recognizes that occasional measured losses may be advisable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that (a) adequate diversification has been implemented~~,~~ and (b) the sale of a security is in the best long-term interest of the City~~ and (c) the City Manager approves in writing~~.

E. Ethics and Conflicts of Interest:

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any business interests they have in financial institutions that conduct business with the City, and they shall subordinate their personal investment transactions to those of the City. In addition, the City Manager, the Finance Director and others with delegated investment authority shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

F. Conflict with State Statutes or Regulations

1. In the instance of a~~A~~ny conflict between the City of Campbell Investment Policy and Government Code Section 53600 et seq, ~~shall be interpreted in favor of the Government Code~~the more stringent requirement shall apply.

V. AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Policy and past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. Percentage holdings limits listed in this section apply at the time the security is purchased.

The City has further restricted the eligible types of securities and transactions to the following:

1. United States Treasury bills, notes, bonds, or strips with a final maturity not exceeding five years from the date of purchase.

2. Federal Agency debentures and mortgage-backed securities with a final maturity not exceeding five years from the date of purchase issued by the Government National Mortgage Association (GNMA). The aggregate investment in Federal Agency obligations shall not exceed 75% of the City's total portfolio.

3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of purchase, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC). The aggregate investment in Federal Instrumentality obligations shall not exceed 75% of the City's total portfolio.

4. Repurchase Agreements with a final termination date not exceeding one year collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed in items 1, 2 and 3 above with the maturity of the collateral not exceeding five years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily. The aggregate investment in repurchase agreements shall not exceed 10% of the City's total portfolio.

   Repurchase Agreements shall be entered into only with broker/dealers that have executed a City approved Master Repurchase Agreement with the City. Repurchase counterparties shall be recognized as Primary Dealers with the Federal Reserve Bank of New York, or shall have a primary dealer within their holding company structure. Broker/dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. The Finance Director shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the broker/dealers that have executed a Master Repurchase Agreement with the City.

5. Prime Commercial Paper with a maturity not exceeding 270 days from the date of purchase with the highest ranking or of the highest letter and number rating as provided for by a Nationally Recognized Statistical Ratings Organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph a. or sub-paragraph b. below:

    a. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five hundred million dollars ($500,000,000) and (3) have debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

    b. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

    ~~Purchases of eligible commercial paper may not represent more than 10% of the outstanding commercial paper of any single corporate issuer.~~ No more than 5% of the City's total portfolio may be invested in the commercial paper and medium-term notes of any ~~one~~ single issuer, and the aggregate investment in commercial paper shall not exceed 25% of the City's total portfolio.

6. Eligible Bankers Acceptances provided that ~~rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F1 by Fitch at the time of purchase by each service that rates the commercial paper, with a maturity not exceeding 180 days from the date of purchase, issued by a state or national bank that has combined capital and surplus of at least $250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A by Standard & Poor's, A2 by Moody's or A by Fitch at the time of purchase.~~ n~~N~~o more than 5% of the City's total portfolio may be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 30% of the City's total portfolio.

7. Medium Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of purchase, and are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. No more than 5% of the City's total portfolio may be invested in medium term notes of any one issuer and the aggregate investment in medium term notes shall not exceed 30% of the City's total portfolio.

8. Non-negotiable Time Certificates of Deposit and savings deposits with a maturity not exceeding five years, in state or nationally chartered banks or savings and loans with a California branch office that are insured by the FDIC. Time Certificates of Deposit exceeding the FDIC insured amount must be secured pursuant to California Government Code Section 53652. No more than $1 million may be invested in non-negotiable time certificates of deposit of any one issuer and the aggregate amount invested in non-negotiable time certificates of deposit shall not exceed 25% of the City's total portfolio.

9. Certificates of Deposit at commercial bank, savings bank, or savings and loan association that uses a private sector entity (Certificate of Deposit Account Registry Service) that assists in the placement of certificates of deposit, provided that the purchase of certificates of deposit do not, in total, exceed 30% of the City's funds that may be invested for this purpose. The City shall choose a nationally or state chartered commercial bank in California as the "selected" depository institution to invest the funds. The selected depository institution may submit the funds to a CDARS for the benefit of the City's account. The full amount of the principal and interest that may be accrued during the maximum term of each certificate shall be insured by the FDIC.

10. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1.

11. Mutual Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) invest only in the securities and obligations authorized in this policy and (3) have a rating of AAA by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. No more than 10% of the City's total portfolio may be invested in mutual funds of any one issuer, and the aggregate investment in mutual funds shall not exceed 15% of the City's total portfolio.

12. Money Market Mutual Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of $1.00; (3) invest only in the securities and obligations authorized in this policy and (4) have a rating of at least two of the following: AAA by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. No more than 10% of the City's total portfolio may be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 15% of the total portfolio.

13. Municipal and State Obligations with a minimum long-term rating of A/A-1 or higher by Standard and Poor's and not exceeding 10% of the portfolio:

    (a) Bonds Issued by the Local Agency (City of Campbell) including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.)

    (b) State Obligations including registered treasury notes or bonds of this State and any of the other 49 states in addition to California, including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of the any of the other 49 United States, in addition to California.

    (c) California Local Agency obligations including bonds, notes, warrants, or other evidence of indebtedness of any local agency within this state, including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the any of the local agency.

    (d) No more than 5% of the portfolio may be invested in any single issuer.

14. Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and

Collateralized Mortgage Obligations from Issuers Not Defined Elsewhere in ~~Sections 1, 2, and 4 of~~ the Authorized Investments Section of This Policy, provided that:

(a) The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
(b) No more than 20% of the total portfolio may be invested in these securities.
(c) No more than 5% of the portfolio may be invested in any single Asset-Backed ~~or Commercial Mortgage~~ security issuer.
(d) The maximum legal final maturity does not exceed five (5) years.

15. Supranationals, provided that:

(a) Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
(b) The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
(c) No more than 30% of the total portfolio may be invested in these securities.
(d) No more than 10% of the portfolio may be invested in any single issuer.
(e) The maximum maturity does not exceed five (5) years.

Note: Per state statute, the maximum combination of Mutual Funds and Money Market Mutual Funds is 20% of the portfolio.

It is the intent of the City that the foregoing list of authorized securities and transactions is strictly interpreted. Any deviation from this list must be preapproved by the City Council writing.

16. Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA) organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority and be rated AAA or equivalent. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
   (a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
   (b) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
   (c) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

~~16.~~17. Prohibited Investment Vehicles and Practices

a. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
b. In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
c. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to

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d. Purchasing or selling securities on margin is prohibited.
e. The purchase of foreign currency denominated securities is prohibited.
f. Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least $100,000,000 in securities owned and invested.

VI. PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of ~~purchase~~settlement, unless the City Council has granted authority to make such an investment at least three months prior to the date of investment. The weighted average final maturity of the City's portfolio shall at no time exceed 3 years.

VII. MONITORING AND REPORTING

A. The Finance Director shall routinely monitor the contents of the portfolio and shall file with the City Council the ~~Finance Manager~~Assistant Finance Director's Investment Report at the first regularly scheduled City Council meeting after ~~30~~ 45 days from the end of the quarter. The reports shall be prepared and submitted in accordance with California Government Code Section 53646 and shall include the following on all invested monies:

- Type of Investment and Issuer
- Beginning Balances
- Purchases During Quarter
- Maturities or Sales During the Quarter
- Ending Balances
- Maturity Date
- Weighted Average Final Maturity
- Call Provisions (if any)
- Interest Rate
- Weighted Average Yield
- Face Value or Purchase Cost
- Market Value including source
- Interest Earned During Quarter
- Interest Earned to Maturity
- Cash Flow Projection for the Following Quarter
- Summary of Cash Invested to Total Cash Balances
- Comparative Statistics by Fiscal Year
- Reconciliation of Cash & Investments to General Ledger Balances
- Investments under the Management of Contracted Parties
- Statement of Compliance with the Investment Policy
- Statement of Ability to Meet Obligations of Next Six Months

B. In addition to the Quarterly Investment Report, monthly transaction reports will be submitted by the Finance Director to City Council within 45 days of the end of the reporting period in accordance with California Government Code Section 53607.

VIII. SELECTION OF BROKER/DEALERS

The City shall transact business with securities broker/dealers after careful review of their qualifications and creditworthiness. In selecting broker /dealers, the Finance Director or designated staff member shall select broker/dealers representing primary dealers in government securities that have established offices and order desks within the State of California, or with such firms that have a primary dealer within their holding company structure. Exceptions to this rule will be made only upon the joint written authorization of the Finance Director and City Manager. Staff shall investigate broker/dealers wishing to do business with the City to determine if they are adequately capitalized, are reputable, have pending legal action against the firm or the individual broker, have established offices and order desks within the State of California, and make markets in the securities appropriate to the City's needs.

Before accepting funds or engaging in investment transactions with the City, the supervising officer at each authorized broker/dealer shall submit and annually update a City approved Broker/Dealer Information Request form that includes the firm's most recent audited financial statement. The Finance Director, or his or her designee, shall maintain a list of approved broker/dealers. Broker/dealers shall attest in writing that they have received and reviewed a copy of this Investment Policy, and that they will comply with it and disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm and the City of Campbell. If the City has engaged the services of an outside professional investment advisor, the investment advisor may use its own list of authorized broker-dealers to conduct transactions on behalf of the City.

IX. DELIVERY, SAFEKEEPING AND COLLATERALIZATION

A. **Delivery:**

1. All investment transactions shall be conducted on a delivery-versus-payment (DVP) basis.

B. **Safekeeping:**

1. The City shall contract with a bank or banks for the safekeeping of securities which are owned by the City as a part of the investment portfolio. Staff shall periodically review the performance and pricing of the third-party, safekeeping agent services.

2. All investment securities (except the collateral for certificates of deposit in banks, and/or savings and loans) purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information, and shall provide monthly reports of activity and ending balances for all securities held on behalf of the City.

C. **Collateralization:**

1. Deposit-type securities (i.e. certificates of deposit) shall be collateralized through the State of California collateral pool requirements for any amount exceeding FDIC coverage in accordance with California Government Code Section 53652 and/or 53651(m) (1). Collateral for certificates of deposit shall be held in a trust company located in California, the trust department of a bank located in California or the Federal Home Loan Bank of San Francisco.

2. Other securities shall be collateralized by the actual security held in third-party safekeeping by the primary agent.

X. DIVERSIFICATION AND ELIGIBLE SECURITIES

The City will diversify investment instruments to avoid incurring unreasonable risks in overinvesting in specific instruments, individual financial institutions or maturities. The following portfolio maximums shall apply:

If the credit ratings of any security owned by the City are downgraded to a level below the quality required by this investment policy, it will be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

If a security is downgraded, the Finance Director will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the City Council.

Authorized Securities and Transactions Maximum Portfolio

CA. Gov't. Code Section	Authorized Investment	Maximum Maturity	Authorized Investment Limits - % of Portfolio	Credit Rating Limit
53601 (a)	City of Campbell Local Agency Bonds	5 years	None/~~5~~10% Per Issuer	A/A-1 or Higher
53601 (c)	State Obligations	5 years	None/~~5~~10% Per Issuer	A/A-1 or Higher
53601 (e)	California Local Agencies	5 years	None/~~5~~10% Per Issuer	A/A-1 or Higher
53601(b)	United States Treasuries	5 years	None	None
53601(e)	Federal Agency Securities	5 years	75%	None
53601(e)	Federal Instrumentality	5 years	75%	None
53691(i)	Repurchase Agreements	1 year	10%	A-1/A
53601(g)	Prime Commercial Paper	270 days	25% 5% Per Issuer	A/A-1 or higher
53601(f)	Eligible Bankers Acceptances	180 days	5% per issuer/30% Aggregate	A-1/P-1/F-1
53601(j)	Medium Term Notes	5 years	30%/ 5% per issuer	A/A-1 or Higher

City of Campbell, California

Investment Policy **Date: ~~August 16~~September 5, 2023~~2~~**

CA. Gov't. Code Section	Authorized Investment	Maximum Maturity	Authorized Investment Limits - % of Portfolio	Credit Rating Limit
53601(n)	Non-negotiable Certificates of Deposit	5 years	25% $1 million per issuer	-
53601.8 (a)-(h)	Certificates of Deposit through Account Registry Services	5 years	~~7.5~~30% Aggregate Maximum Up to the FDIC Insured Limit Per Issuer	-
16429.1	State of California LAIF	~~18 Months-Avg~~N/A	None	-
53601(k)	*Mutual Funds	None	15%	AAAm/Aaa/AAAV1+
53601(k)	*Money Market Mutual Funds	None	15%	AAAm/Aaa/AAAV1+
53601(o)	Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations	5 years	20%/5% per issuer	AA or higher
53601(q)	Supranationals	5 years	30%	AA or higher
53601(p)	Shares of a joint powers authority	N/A	None	AAA or higher
	*Combined total not to exceed 20% per State		20%	

EXHIBIT A

GLOSSARY

Asset Backed Securities. - Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

Banker's Acceptance. This is a negotiable time draft (bill of exchange) with a maturity of six months or less drawn on and accepted by a commercial bank. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable commodities. Per State Law, cities may not invest more than 30% of idle cash in Banker's Acceptances.

Certificate of Deposit (CD's). - is a receipt for funds deposited in a bank or savings and loan association for a specified period of time at a specified rate of interest. The first $250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC). CD's with a face value in excess of $250,000 can be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's, in excess of the first $250,000, or by first mortgage loans which must be at least 150% of the face value of the CD balance in excess of the first $250,000.

Commercial Paper. - Notes are unsecured promissory notes of industrial corporations, utilities and bank holding companies. State law limits a city to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating. Per State law, cities with less than $100 million in assets under management may not invest more than 25% of idle cash in commercial paper.

Delivery Versus Payment (DVP). - Delivery versus payment (DVP) is a securities industry settlement method that guarantees the transfer of securities only happens after payment has been made. DVP stipulates that the buyer's cash payment for securities must be made prior to or at the same time as the delivery of the security.

Local Agency Investment Fund (L.A.I.F.). - The L.A.I.F. was established by the state of California to enable treasurers to place funds in a pool for investments. There currently is a limitation of $7~~6~~5 million per agency subject to a maximum of 15 total transactions per month. The City of Campbell uses this fund when interest rates are declining as well as for short-term investments and liquidity.

Medium Term Notes. - are corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

Money Market Mutual Fund. - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mortgage Backed Securities. - Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are “passed through” from the pool of mortgages. MBS are complex securities whose cash flow is determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

Mortgage Pass-Through Obligations. - Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

Mutual Fund. - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by strict Securities and Exchange Commission (SEC) disclosure guidelines.

Nationally Recognized Statistical Ratings Organization. - A nationally recognized statistical ratings organization (NRSRO) is a credit rating agency that provides an assessment of the creditworthiness of a firm or financial instrument(s) that is registered and approved by the Securities and Exchange Commission (SEC). Not all credit rating organizations are NRSROs

Repurchase Agreements (REPOS). - is a contractual arrangement between a financial institution, or dealer, and an investor. This agreement normally can run for one or more days. The investor puts up his funds for a certain number of days at a stated yield. In return, he takes a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid plus interest.

Supranationals. - International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and InterAmerican Development Bank (IADB).

U.S. Treasury Bills. Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.

U.S. Treasury Notes. These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years. Interest is paid semi-annually.

U.S. Treasury Bonds. These are the same as U.S. Treasury Notes except they have original maturities of ten years or longer.

U.S. Government Agency Issues. Are securities that are unconditionally backed by the full faith and credit of the United States, including: Government National Mortgage Association (GNMA), Farmers Home Administration (FmHA),Small Business Administration (SBA), General Services Administration (GSA), Federal Housing Administration (FHA) and Housing and Urban Development (HUD).

U.S. Government Instrumentality Issues. Are government sponsored enterprises that are backed by the creditworthiness of the issuing agency, not the full faith and credit of the U.S. government. They do carry an implied guarantee of government assistance to the organization should it encounter financial difficulties. Issuers include: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC).

I. PURPOSE

It is the policy of the City of Campbell to invest public funds in a prudent manner which conforms to all statutes governing the investment of public funds while providing security and meeting the daily cash flow needs of the City.

The purpose of this document is to identify the policies guiding prudent investment of the City's temporarily idle funds and to establish guidelines and objectives for suitable investments including delegation of authority, prudence, monitoring and reporting, policy review, diversification, eligible securities, safekeeping, collateralization, selection of financial institutions and broker/dealers, glossary of terms, and forms utilized.

II. SCOPE

A. This investment policy shall apply to all financial assets, investment activities, and debt issues (excluding those debt issues subject to governing documents) of the City of Campbell including the following fund types:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Projects Funds
5. Internal Service Funds
6. Trust and Agency Funds

B. The policy does not cover funds held by the Public Employees Retirement System nor funds of the Deferred Compensation program.

III. OBJECTIVES

A. It is the objective of this policy to provide a system which will monitor and forecast revenues and expenditures so that the City can invest temporarily idle funds to the fullest extent possible. The temporarily idle funds shall be invested in accordance with provisions of California Government Code Section 53600 et. seq.

B. The City adheres to conservative investment philosophies including investment of all idle cash, preservation of principal at the risk of yield, maintenance of adequate liquidity to meet anticipated cash flow needs and diversification to avoid the risks inherent in over investing in any one asset class.

C. This policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates. It further prohibits reverse repurchase agreements, use of derivative products, and/or leveraging of the portfolio.

D. The City shall ensure the safety of invested funds by limiting credit and interest rate risks. The three primary objectives of the City's Investment Policy in order of priority are:

1. **Safety:** Safety of principal is the foremost objective of the City of Campbell. Safety and the minimizing of risk associated with investing refer to attempts to reduce the potential for loss of principal, interest or a combination of the two. The City ensures safety of its invested idle funds and limits credit and interest rate risks by following these guidelines (all of which are detailed within the body of the Investment Policy):

   a. Investing only in those instruments that are generally accepted as safe investment vehicles for local government as authorized by this Policy,

   b. Carefully reviewing the qualifications and financial strength of financial institutions and broker/dealers prior to conducting business with them,

   c. Diversifying the investment portfolio as prescribed within this Policy,

   d. Structuring the portfolio such that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation,

   e. Limiting the final maturity of purchased securities to five years; limiting the weighted average maturity of the portfolio to three years, and

   f. Ensuring the physical security or safekeeping of the City's investments.

2. **Liquidity:** Liquidity is the second most important objective of the City's Policy. Liquidity refers to the ability to convert an investment to cash promptly without loss of principal and minimal loss of interest. For example, this is accomplished by maintaining sufficient balances in liquid investment products, such as the Local Agency Investment Fund (LAIF) or other local government investment pools which offer same day availability, or by investing in securities with active secondary or resale markets.

3. **Return:** Return on the City's portfolio is last in rank among investment objectives. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. STRUCTURE AND RESPONSIBILITY

A. DELEGATION OF AUTHORITY:

1. The City Council assumes direction over the City’s investments, and assigns management responsibility for the investment program to the Finance Director, who shall serve as Chief Fiscal Officer, and have legal custody of funds. The Finance Director may provide for delegation of his/her responsibilities to other persons under his/her control responsible for investment transactions, including

the delegation of certain portions of the investment portfolio to one or more external and qualified investment advisers or such other designee approved by the Finance Sub-Committee. External investment advisors who are engaged b by the City shall be registered under the Investment Advisers Act of 1940 and shall assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

B. POLICY REVIEW:

1. This Investment Policy shall be reviewed and approved annually as recommended by California Government Code Section 53600 et. seq.

C. RESPONSIBILITIES:

1. **Responsibilities of the City Council:** The City Council consists of a Mayor and four Council members and is the policy setting board for the City of Campbell. The City Council has considered and adopted a written Investment Policy for the City of Campbell. Pursuant to the City's Financial Policies, the City Council shall on an annual basis, approve necessary changes to the Investment Policy as recommended by the Finance Sub-Committee. On a quarterly basis, the City Council shall receive, review and accept the Quarterly Investment Report submitted by the Finance Department.

2. **Responsibilities of the Finance Sub-Committee:** The Finance Sub-Committee consists of two Council members, the City Manager, the Finance Director, and the Assistant Finance Director. On an annual basis, this Sub-Committee shall review necessary revisions to the established Investment Policy of the City of Campbell and make a recommendation to the City Council accordingly. No less than once per fiscal year, the City's investment strategy will be reviewed by the Finance Sub-Committee. A summary of the investment strategy will be shared with the City Council at that time. Should market activity encourage revisions in the City's strategy, the Finance Sub-Committee shall be advised accordingly.

3. **Responsibilities of the City Manager:** The City Manager is responsible for directing and supervising the Finance Director. He/she has the responsibility of keeping the City Council fully advised as to the financial condition of the City.

   a. **Wire Transfer Authority:** The City Manager has unlimited wire transfer authority for a single transaction. Such a transaction requires joint review, approval and verification in advance by the City Manager and Finance Director. The transaction shall be highlighted in the Quarterly Investment Report to Council.

4. **Responsibilities of the Finance Director:** The Finance Director is appointed by the City Manager and serves as Chief Fiscal Officer. He/she is subject to the direction and supervision of the City Manager. The Finance Director is charged with the responsibility for the conduct of all Finance Department functions including the custody and investment of City funds, and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and policies. Refer to "Delegation of Authority" for additional information pertaining to delegation of investment responsibilities.

a. **Wire Transfer Authority:** The Finance Director has wire transfer authority not to exceed $5,000,000 for a single transaction. Such a transaction shall be reviewed, approved and verified in advance by the City Manager. The transaction shall be highlighted in the Quarterly Investment Report to Council.

5. **Responsibilities of the Assistant Finance Director:** The Assistant Finance Director is appointed by the Finance Director and serves as the Investment Manager for the City pursuant to specific delegation authority provided by this Investment Policy. He/she is subject to the direction and supervision of the Finance Director and is charged with the responsibility and conduct of the day-to-day accounting and cash management functions of the City. This includes the custody and investment of City funds, and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and policies. Refer to "Delegation of Authority" for additional information pertaining to delegation of investment responsibilities.

   Implementation and maintenance of the Investment Policy are the responsibility of this individual. On an annual basis, the Assistant Finance Director shall present to the Finance Sub-Committee, recommended changes to the City's Investment Policy. On a quarterly basis, the Assistant Finance Director shall present to the City Council, via the City Manager, a Quarterly Investment Report. Refer to "Monitoring and Reporting" for additional information.

   a. **Wire Transfer Authority:** The Assistant Finance Director has wire transfer authority not to exceed $3,000,000 for a single investment transaction. Such a transaction shall be reviewed, approved and verified in advance by the Finance Director, and shall be reported in the Quarterly Investment Report to Council.

6. **Responsibilities of the Accountant:** The Accountant is appointed by the Finance Director and is subject to the direction and supervision of the Assistant Finance Director. The Accountant carries out the specific instructions provided by the Assistant Finance Director regarding the purchase and sale of securities in accordance with principles of sound treasury management and in accordance with applicable laws and policies. Accounting for the various investment transactions is the responsibility of the Accountant.

   a. **Wire Transfer Authority:** The Accountant has wire transfer authority not to exceed $2,100,000 for a single investment transaction. The standard operating procedure is that all cash and investment wire transfers made by the Accountant and Senior Accountant are reviewed, approved and verified in advance by the Assistant Finance Director, and are reported in the Quarterly Investment Report to Council.

D. Prudence:

1. Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the Prudent Investor Standard. This means that all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to

this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

2. The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally riskless and that the investment activities of the City are a matter of public record. Accordingly, while the intent of the City is to hold purchased securities to maturity, the City recognizes that occasional measured losses may be advisable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that (a) adequate diversification has been implemented and (b) the sale of a security is in the best long-term interest of the City.

E. Ethics and Conflicts of Interest:

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any business interests they have in financial institutions that conduct business with the City, and they shall subordinate their personal investment transactions to those of the City. In addition, the City Manager, the Finance Director and others with delegated investment authority shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

F. Conflict with State Statutes or Regulations

1. In the instance of any conflict between the City of Campbell Investment Policy and Government Code Section 53600 et seq, the more stringent requirement shall apply.

V. <u>AUTHORIZED SECURITIES AND TRANSACTIONS</u>

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Policy and past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. Percentage holdings limits listed in this section apply at the time the security is purchased.

The City has further restricted the eligible types of securities and transactions to the following:

1. United States Treasury bills, notes, bonds, or strips with a final maturity not exceeding five years from the date of purchase.

2. Federal Agency debentures and mortgage-backed securities with a final maturity not exceeding five years from the date of purchase issued by the Government National Mortgage Association (GNMA). The aggregate investment in Federal Agency obligations shall not exceed 75% of the City's total portfolio.

3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of purchase, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC). The aggregate investment in Federal Instrumentality obligations shall not exceed 75% of the City's total portfolio.

4. Repurchase Agreements with a final termination date not exceeding one year collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed in items 1, 2 and 3 above with the maturity of the collateral not exceeding five years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily. The aggregate investment in repurchase agreements shall not exceed 10% of the City's total portfolio.

   Repurchase Agreements shall be entered into only with broker/dealers that have executed a City approved Master Repurchase Agreement with the City. Repurchase counterparties shall be recognized as Primary Dealers with the Federal Reserve Bank of New York, or shall have a primary dealer within their holding company structure. Broker/dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. The Finance Director shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the broker/dealers that have executed a Master Repurchase Agreement with the City.

5. Prime Commercial Paper with a maturity not exceeding 270 days from the date of purchase with the highest ranking or of the highest letter and number rating as provided for by a Nationally Recognized Statistical Ratings Organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph a. or sub-paragraph b. below:

   a. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five hundred million dollars ($500,000,000) and (3) have debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

   b. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

No more than 5% of the City's total portfolio may be invested in the commercial paper and medium-term notes of any single issuer, and the aggregate investment in commercial paper shall not exceed 25% of the City's total portfolio.

6. Eligible Bankers Acceptances provided that no more than 5% of the City's total portfolio may be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 30% of the City's total portfolio.

7. Medium Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of purchase, and are rated in a rating category of "A" or its equivalent or better by at least one NRSRO. No more than 5% of the City's total portfolio may be invested in medium term notes of any one issuer and the aggregate investment in medium term notes shall not exceed 30% of the City's total portfolio.

8. Non-negotiable Time Certificates of Deposit and savings deposits with a maturity not exceeding five years, in state or nationally chartered banks or savings and loans with a California branch office that are insured by the FDIC. Time Certificates of Deposit exceeding the FDIC insured amount must be secured pursuant to California Government Code Section 53652. No more than $1 million may be invested in non-negotiable time certificates of deposit of any one issuer and the aggregate amount invested in non-negotiable time certificates of deposit shall not exceed 25% of the City's total portfolio.

9. Certificates of Deposit at commercial bank, savings bank, or savings and loan association that uses a private sector entity (Certificate of Deposit Account Registry Service) that assists in the placement of certificates of deposit, provided that the purchase of certificates of deposit do not, in total, exceed 30% of the City's funds that may be invested for this purpose. The City shall choose a nationally or state chartered commercial bank in California as the "selected" depository institution to invest the funds. The selected depository institution may submit the funds to a CDARS for the benefit of the City's account. The full amount of the principal and interest that may be accrued during the maximum term of each certificate shall be insured by the FDIC.

10. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1.

11. Mutual Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) invest only in the securities and obligations authorized in this policy and (3) have a rating of AAA by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. No more than 10% of the City's total portfolio may be invested in mutual funds of any one issuer, and the aggregate investment in mutual funds shall not exceed 15% of the City's total portfolio.

12. Money Market Mutual Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of $1.00; (3) invest only in

the securities and obligations authorized in this policy and (4) have a rating of at least two of the following: AAA by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch. No more than 10% of the City's total portfolio may be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 15% of the total portfolio.

13. Municipal and State Obligations with a minimum long-term rating of A/A-1 or higher by Standard and Poor's and not exceeding 10% of the portfolio:

(a) Bonds Issued by the Local Agency (City of Campbell) including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.)

(b) State Obligations including registered treasury notes or bonds of this State and any of the other 49 states in addition to California, including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of the any of the other 49 United States, in addition to California.

(c) California Local Agency obligations including bonds, notes, warrants, or other evidence of indebtedness of any local agency within this state, including bonds payable solely out of the revenue from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the any of the local agency.

(d) No more than 5% of the portfolio may be invested in any single issuer.

14. Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations from Issuers Not Defined Elsewhere in the Authorized Investments Section of This Policy, provided that:

(a) The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
(b) No more than 20% of the total portfolio may be invested in these securities.
(c) No more than 5% of the portfolio may be invested in any single Asset-Backed security issuer.
(d) The maximum legal final maturity does not exceed five (5) years.

15. Supranationals, provided that:

(a) Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.
(b) The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
(c) No more than 30% of the total portfolio may be invested in these securities.
(d) No more than 10% of the portfolio may be invested in any single issuer.
(e) The maximum maturity does not exceed five (5) years.

Note: Per state statute, the maximum combination of Mutual Funds and Money Market Mutual Funds is 20% of the portfolio.

It is the intent of the City that the foregoing list of authorized securities and transactions is strictly interpreted. Any deviation from this list must be preapproved by the City Council writing.

16. Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA) organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority and be rated AAA or equivalent. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
    (a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
    (b) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
    (c) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

17. Prohibited Investment Vehicles and Practices

    a. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
    b. In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
    c. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
    d. Purchasing or selling securities on margin is prohibited.
    e. The purchase of foreign currency denominated securities is prohibited.
    f. Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least $100,000,000 in securities owned and invested.

VI. PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of settlement, unless the City Council has granted authority to make such an investment at least three months prior to the date of investment. The weighted average final maturity of the City's portfolio shall at no time exceed 3 years.

VII. MONITORING AND REPORTING

A. The Finance Director shall routinely monitor the contents of the portfolio and shall file with the City Council the Assistant Finance Director's Investment Report at the first regularly scheduled City Council meeting after 45 days from the end of the quarter. The reports shall be prepared and submitted in accordance with California Government Code Section 53646 and shall include the following on all invested monies:

- Type of Investment and Issuer
- Beginning Balances
- Purchases During Quarter
- Maturities or Sales During the Quarter
- Ending Balances
- Maturity Date
- Weighted Average Final Maturity
- Call Provisions (if any)
- Interest Rate
- Weighted Average Yield
- Face Value or Purchase Cost
- Market Value including source
- Interest Earned During Quarter
- Interest Earned to Maturity
- Cash Flow Projection for the Following Quarter
- Summary of Cash Invested to Total Cash Balances
- Comparative Statistics by Fiscal Year
- Reconciliation of Cash & Investments to General Ledger Balances
- Investments under the Management of Contracted Parties
- Statement of Compliance with the Investment Policy
- Statement of Ability to Meet Obligations of Next Six Months

B. In addition to the Quarterly Investment Report, monthly transaction reports will be submitted by the Finance Director to City Council within 45 days of the end of the reporting period in accordance with California Government Code Section 53607.

VIII. SELECTION OF BROKER/DEALERS

The City shall transact business with securities broker/dealers after careful review of their qualifications and creditworthiness. In selecting broker /dealers, the Finance Director or designated staff member shall select broker/dealers representing primary dealers in government securities that have established offices and order desks within the State of California, or with such firms that have a primary dealer within their holding company structure. Exceptions to this rule will be made only upon the joint written authorization of the Finance Director and City Manager. Staff shall investigate broker/dealers wishing to do business with the City to determine if they are adequately capitalized, are reputable, have pending legal action against the firm or the individual broker, have established offices and order desks within the State of California, and make markets in the securities appropriate to the City's needs.

Before accepting funds or engaging in investment transactions with the City, the supervising officer at each authorized broker/dealer shall submit and annually update a City approved Broker/Dealer Information Request form that includes the firm's most recent audited financial statement. The Finance Director, or his or her designee, shall maintain a list of approved broker/dealers. Broker/dealers shall attest in writing that they have received and reviewed a copy of this Investment Policy, and that they will comply with it and disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm and the City of Campbell. If the City has engaged the services of an outside professional investment advisor, the investment advisor may use its own list of authorized broker-dealers to conduct transactions on behalf of the City.

IX. DELIVERY, SAFEKEEPING AND COLLATERALIZATION

A. **Delivery:**

1. All investment transactions shall be conducted on a delivery-versus-payment (DVP) basis.

B. **Safekeeping:**

1. The City shall contract with a bank or banks for the safekeeping of securities which are owned by the City as a part of the investment portfolio. Staff shall periodically review the performance and pricing of the third-party, safekeeping agent services.

2. All investment securities (except the collateral for certificates of deposit in banks, and/or savings and loans) purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information, and shall provide monthly reports of activity and ending balances for all securities held on behalf of the City.

C. **Collateralization:**

1. Deposit-type securities (i.e. certificates of deposit) shall be collateralized through the State of California collateral pool requirements for any amount exceeding FDIC coverage in accordance with California Government Code Section 53652 and/or 53651(m) (1). Collateral for certificates of deposit shall be held in a trust company located in California, the trust department of a bank located in California or the Federal Home Loan Bank of San Francisco.

2. Other securities shall be collateralized by the actual security held in third-party safekeeping by the primary agent.

X. DIVERSIFICATION AND ELIGIBLE SECURITIES

The City will diversify investment instruments to avoid incurring unreasonable risks in overinvesting in specific instruments, individual financial institutions or maturities. The following portfolio maximums shall apply:

If the credit ratings of any security owned by the City are downgraded to a level below the quality required by this investment policy, it will be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

If a security is downgraded, the Finance Director will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported quarterly to the City Council.

Authorized Securities and Transactions Maximum Portfolio

CA. Gov't. Code Section	Authorized Investment	Maximum Maturity	Authorized Investment Limits - % of Portfolio	Credit Rating Limit
53601 (a)	City of Campbell Local Agency Bonds	5 years	None/10% Per Issuer	A/A-1 or Higher
53601 (c)	State Obligations	5 years	None/10% Per Issuer	A/A-1 or Higher
53601 (e)	California Local Agencies	5 years	None/10% Per Issuer	A/A-1 or Higher
53601(b)	United States Treasuries	5 years	None	None
53601(e)	Federal Agency Securities	5 years	75%	None
53601(e)	Federal Instrumentality	5 years	75%	None
53691(i)	Repurchase Agreements	1 year	10%	A-1/A
53601(g)	Prime Commercial Paper	270 days	25% 5% Per Issuer	A/A-1 or higher
53601(f)	Eligible Bankers Acceptances	180 days	5% per issuer/30% Aggregate	A-1/P-1/F-1
53601(j)	Medium Term Notes	5 years	30%/ 5% per issuer	A/A-1 or Higher
53601(n)	Non-negotiable Certificates of Deposit	5 years	25% $1 million per issuer	-
53601.8 (a)-(h)	Certificates of Deposit through Account Registry Services	5 years	30% Aggregate Maximum Up to the FDIC Insured Limit Per Issuer	-
16429.1	State of California LAIF	N/A	None	-
53601(k)	*Mutual Funds	None	15%	AAAm/Aaa/AAAV1+
53601(k)	*Money Market Mutual Funds	None	15%	AAAm/Aaa/AAAV1+
53601(o)	Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations	5 years	20%/5% per issuer	AA or higher
53601(q)	Supranationals	5 years	30%	AA or higher
53601(p)	Shares of a joint powers authority	N/A	None	AAA or higher

CA. Gov't. Code Section	Authorized Investment	Maximum Maturity	Authorized Investment Limits - % of Portfolio	Credit Rating Limit
	*Combined total not to exceed 20% per State		20%	

EXHIBIT A

GLOSSARY

Asset Backed Securities. - Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

Banker's Acceptance. This is a negotiable time draft (bill of exchange) with a maturity of six months or less drawn on and accepted by a commercial bank. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable commodities. Per State Law, cities may not invest more than 30% of idle cash in Banker's Acceptances.

Certificate of Deposit (CD's). - is a receipt for funds deposited in a bank or savings and loan association for a specified period of time at a specified rate of interest. The first $250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC). CD's with a face value in excess of $250,000 can be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's, in excess of the first $250,000, or by first mortgage loans which must be at least 150% of the face value of the CD balance in excess of the first $250,000.

Commercial Paper. - Notes are unsecured promissory notes of industrial corporations, utilities and bank holding companies. State law limits a city to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating. Per State law, cities with less than $100 million in assets under management may not invest more than 25% of idle cash in commercial paper.

Delivery Versus Payment (DVP). - Delivery versus payment (DVP) is a securities industry settlement method that guarantees the transfer of securities only happens after payment has been made. DVP stipulates that the buyer's cash payment for securities must be made prior to or at the same time as the delivery of the security.

Local Agency Investment Fund (L.A.I.F.). - The L.A.I.F. was established by the state of California to enable treasurers to place funds in a pool for investments. There currently is a limitation of $75 million per agency subject to a maximum of 15 total transactions per month. The City of Campbell uses this fund when interest rates are declining as well as for short-term investments and liquidity.

Medium Term Notes. - are corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

Money Market Mutual Fund. - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mortgage Backed Securities. - Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are “passed through” from the pool of mortgages. MBS are complex securities whose cash flow is determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

Mortgage Pass-Through Obligations. - Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

Mutual Fund. - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by strict Securities and Exchange Commission (SEC) disclosure guidelines.

Nationally Recognized Statistical Ratings Organization. - A nationally recognized statistical ratings organization (NRSRO) is a credit rating agency that provides an assessment of the creditworthiness of a firm or financial instrument(s) that is registered and approved by the Securities and Exchange Commission (SEC). Not all credit rating organizations are NRSROs

Repurchase Agreements (REPOS). - is a contractual arrangement between a financial institution, or dealer, and an investor. This agreement normally can run for one or more days. The investor puts up his funds for a certain number of days at a stated yield. In return, he takes a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid plus interest.

Supranationals. - International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and InterAmerican Development Bank (IADB).

U.S. Treasury Bills. Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.

U.S. Treasury Notes. These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years. Interest is paid semi-annually.

U.S. Treasury Bonds. These are the same as U.S. Treasury Notes except they have original maturities of ten years or longer.

U.S. Government Agency Issues. Are securities that are unconditionally backed by the full faith and credit of the United States, including: Government National Mortgage Association (GNMA), Farmers Home Administration (FmHA),Small Business Administration (SBA), General Services Administration (GSA), Federal Housing Administration (FHA) and Housing and Urban Development (HUD).

U.S. Government Instrumentality Issues. Are government sponsored enterprises that are backed by the creditworthiness of the issuing agency, not the full faith and credit of the U.S. government. They do carry an implied guarantee of government assistance to the organization should it encounter financial difficulties. Issuers include: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC).

MEMORANDUM **CITY OF CAMPBELL**

Finance Department

To:	Finance Sub-Committee	**Date:**	August 21, 2023
From:	Will Fuentes, Finance Director		
Subject:	**Investment Strategy for FY 2023-24**		

BACKGROUND

The investment policy establishes procedures and guidelines by which the City's surplus funds can be managed in a prudent and fiscally sound manner. The policy encompasses those funds over which the City exercises fiscal control and prioritizes the objectives of public funds management as safety, liquidity and yield, in that order and consistent with guidance provided by the Government Finance Officers Association (GFOA). It also stipulates allowable and unallowable investment alternatives as well as establishes parameters for selecting broker/dealers and institutions with which the City may do business.

California Government Code Section 53646 (a) (2) recommends that on an annual basis, the City Investment Policy be submitted to its legislative body and any oversight committee for consideration at a public meeting. The Finance Sub-Committee is the oversight committee responsible for review of the Investment Policy. In addition to review of any proposed revisions to the Investment Policy, staff has prepared a report summarizing the past year's economic conditions and the recommended ***Investment Strategy*** for managing the City's available invested funds in FY 2023-24.

INVESTMENT OBJECTIVES AND OVERVIEW

The City's policy is to invest public funds in a prudent manner, provide for maximum security while meeting daily cash flow needs and comply with applicable statutes. Chief among the objectives outlined in the Investment Policy are safety, liquidity and return, in that specific order and again consistent with GFOA guidance. Within this framework, a number of investment choices are provided to allow flexibility in meeting these objectives. The City continues to take a conservative approach with its investments and that is reflected in the currently recommended investment policy.

As a means to implement the policy, it is important to develop a strategy for achieving the stated objectives. Likewise, the strategy should be reviewed periodically to determine whether it needs to be modified in light of changing economic and financial conditions. This document will serve as the City's investment strategy for the next year and will be reviewed annually in conjunction with the review of the City's investment policy or sooner if conditions warrant.

SUMMARY OF CURRENT STRATEGY AND RECOMMENDATIONS

Staff's recommended Investment Strategy for FY 2023-24 is similar to the prior year, but adds the recommendation that use of external investment advisors be allowed and that vendor proposals be obtained for future Council consideration. As such, it is recommended that the City continue to maintain sufficient liquidity to cover daily operating cash flows for a minimum of 3 months to provide a reasonable cushion for fluctuations in the portfolio balance and for unforeseen emergencies. Average monthly disbursements over the last fiscal year (FY 2022-23) were approximately $7.4 million. Therefore, staff recommends retaining a target of **$22.2 million** (3 months) in the Local Agency Investment Fund (LAIF) or similar secure, stable, and liquid pooled investment fund. Last fiscal year, due an rising interest rates, staff invested in a number of fixed income investment opportunities outside of LAIF; thereby providing a higher, yet still safe return consistent with the City's Investment Policy. With current fixed income investment rates between 4.4% and 5.4% for 3-month to 5-year maturities, respectively, staff recommends continuation of this investment strategy for FY 2022-23, with no changes from the prior fiscal year approach; except again for potential use of an external investment advisor to improve returns even further. Should the economy decline, requiring that the City to maintain greater liquidity, staff will re-evaluate this strategy and update the Finance Sub-Committee and the City Council. However, staff believes that it is a fiscally prudent strategy given a variety of different economic conditions and one that remains consistent with the City's Investment Policy.

And similar to last fiscal year and consistent with Investment Policy, staff (and its advisors) will again look for individual maturities of no more than 5 years, while maintaining a portfolio weighted average maturity of 3 years or less. The interest rate yield curve is currently inverted, with maturities 1 year and less hovering around 5.4% and maturities greater than 1 year and less than 5 years earning between 5.4% and 4.4%. This presents opportunities to invest for shorter periods of time and earn greater return, but the City would be wise to also invest in longer term maturities so as to lock in returns which are still elevated through the 5 year maturities. Interest rates for fixed income investments have continued to improve significantly this past year due to the Federal Open Market Committee (FOMC) taking a very aggressive strategy of ramping up the Federal Funds Rate to bring rising inflation under control. With inflation subsiding in recent months, the FOMC may begin to slow down or pause rate adjustments. However, at the July 2023 FOMC meeting Federal Reserve Chair Powell maintained that the FOMC will remain data dependent going forward, and that they do not anticipate a recession, leaving the option open for the possibility of additional rate hikes in the future if needed to further control inflation. While these rate adjustments have been a great benefit to the City's investment returns, they could also potentially increase future debt costs of the City if new debt were issued.

Please note that as of June 30, 2023, the City had **$27.0 million** invested in fixed income government securities and corporate notes. Additionally, as of June 30, 2023, the City had **$74.99 million** invested in LAIF, with an annual return of **2.17%**. This compares with $74.99 million invested in LAIF as of June 30, 2022 and an annual LAIF return of 0.371% at that time. LAIF holdings remained the same during the last fiscal year since the maximum that any public agency can invest in LAIF is $75.0 million. Thus, any City cash above this cap was placed in other investment options.

ECONOMIC UPDATE AND OUTLOOOK

U.S. inflation data for the week ending August 11, 2023 provided encouraging indications of moderating inflation trends. The Consumer Price Index (CPI) witnessed a monthly increase of 0.2% in July, while the annual CPI experienced a slight rise to 3.2% due to an unfavorable year-over-year comparison. The core consumer price index, excluding volatile food and energy costs, showed a modest 0.2% rise for the second consecutive month, marking the smallest back-to-back increase in nearly two years and reaching a year-over-year total of 4.7%, down from 4.8% in June. The primary factor driving the CPI increase was housing costs, while used-car prices and airfares declined. Producer-price inflation rose by 0.3% in July, largely influenced by specific service categories, with a 0.8% increase from the previous year. Slight increases in goods prices were noted, particularly in food costs, while core goods prices, excluding food and energy, remained steady following a decline in June. These trends are likely to influence the Federal Reserve's stance on the future direction of monetary policy at the September meeting.

As for other economic data, the week ending August 11 also saw an unexpected surge in U.S. consumer borrowing in June 2023, with total credit increasing by $17.8 billion. This growth was largely attributed to increases in non-revolving credit, including school tuition and vehicle loans. In contrast, revolving credit, which includes credit cards, home equity lines of credit, and personal lines of credit, among others, decreased by $604.5 million, indicating potential shifts in consumer spending behavior. Despite concerns about high prices and financial constraints, robust consumer spending persisted due to steady wage growth and low unemployment rates. U.S. small-business sentiment reached an eight-month peak in July, as the National Federation of Independent Business index rose by 0.9 to 91.9, signaling a more optimistic economic outlook. More respondents expressed intentions to expand employment, invest in capital, and increase inventories in July. This sentiment aligns with improvements in consumer sentiment measures, suggesting the possibility of improved small business activity despite tight credit conditions and inflation concerns.

Nevertheless, in spite of some encouraging economic news, on August 2, the U.S. Treasury's credit rating was downgraded by Fitch, a nationally recognized statistical ratings organization that assesses creditworthiness of various institutions, including sovereign entities. The rating was lowered from the highest level of “AAA” to “AA+”, which is only one notch below the highest possible credit rating of “AAA.” The action comes just two months after Fitch warned that it was weighing cutting the credit rating when lawmakers were in political battles over raising the nation’s debt limit. The downgrade cast a shadow over other economic news. In addition to the downgrade of the U.S. Treasury, Fitch subsequently downgraded Government Sponsored Enterprises (GSEs); Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and the Farm Credit System’s (FFCB) Long-Term Ratings to “AA+” from “AAA”. According to Fitch, a key rating driver for these GSEs is the benefit provided from the implicit government support which directly links them to the U.S. sovereign rating. On Thursday, Fitch also downgraded Tennessee Valley Authority (TVA) and Private Export Funding Company (PEFCO) from “AAA” to “AA+”.

During the week ending August 4, 2023, the Senior Loan Officer Survey on Bank Lending Practices was released reflecting tighter credit standards and weaker loan demand from both businesses and consumers during the second quarter. The report, which Fed policymakers had access to before their July meeting, suggests credit tightening is ongoing. The ISM Manufacturing Index rose slightly to 46.4 in July from 46.0 in June but was below survey expectations and has been in contraction territory for nine straight months. The ISM Services Index fell to 52.7 in July from the prior months reading of 53.9 but in contrast with U.S. manufacturing, the U.S. service sector has remained in positive territory (above 50) for seven straight months signaling continued expansion.

Investors' heightened concerns about rising borrowing costs was a catalyst in moving U.S. stock prices lower for the week ending August 4 while longer term Treasuries experienced a selloff before a small rebound post the August 4 employment report. The 2-year treasury is down 8 basis points to 4.80% after starting the week ending August 4 at 4.88%, and the 10-year is up 13 basis points to a nine-month high of 4.09% as of August 4. The yield inversion between the 2-year and 10-year treasury narrowed, ending the week of August 4 at approximately 71 basis points.

Housing prices nationwide dipped 1.7% year-over-year in May 2023 according to the S&P CoreLogic Case Shiller Index. Chicago topped the 20-city list with a gain of 4.6%, while San Francisco and Seattle both saw price declines of slightly over 11% over the last year. Tight inventories and 30-year fixed mortgage rates of around 7% continue to impact affordability. New Home Sales for June were down 2.5% after three consecutive months of gains, but were still up 23.8% year-over-year.

On the employment front, U.S. employers added fewer jobs than expected in July while the unemployment rate moved slightly lower to 3.5% from 3.6%. Nonfarm payrolls rose 187,000 last month following a revised 185,000 in June. Job gains were led by health care, financial activities, and construction. Average hourly earnings growth was up 0.4% for the month and 4.4% year-over-year. These wage gains provide support for the consumer by outpacing the current rate of inflation. July average hourly earnings were higher than respective estimates of 0.3% and 4.2%. The participation rate remained steady for the fifth straight month at 62.6%. Overall, this labor report can be characterized by soft job gains offset by higher-than-expected wage growth. Additional employment data released this week included the Job Openings and Labor Turnover Survey (JOLTS) report for June which fell to 9.58 million. This was down slightly from the prior month and significantly lower than the 10.3 million reported in April. Although trending lower, by historical standards job openings continue to reflect a strong level of labor demand and equates to approximately 1.6 jobs for every unemployed worker. Jobless claims numbers released on Thursday also accentuated the resilient demand for workers.

In California, total nonfarm employment in the state increased by 11,600 jobs over the month of May 2023. However, statewide unemployment increased to a rate of 4.6% in June 2023; up from 4.5% in May 2022 and 3.9% in June 2022. In Santa Clara County, the rate increased to 3.6% in June 2023; up from 3.2% in May 2023 and 2.7% in June 2022. And in Campbell, the rate increased to 3.1% in June 2023; up from 2.8% in May 2023 and 2.3% in June 2023. At its pandemic high point in April 2020, the Campbell unemployment rate had reached 11.2%.

PORTFOLIO BALANCE

For the fiscal year ended June 30, 2023, the City's average portfolio balance was approximately **$95.5 million** and the average yield for the fiscal year was 2.25%. This compares to an average portfolio balance of $56.1 million and an average yield of 0.47% for fiscal year ended June 30, 2022. The higher FY 2023 yield was the result of both higher fixed income investment returns and higher LAIF returns.

As of June 30, 2023, the City's investment portfolio was valued at approximately **$102.0 million**. This was comprised of approximately $74.9 million (73.53%) in LAIF, $26.0 million (25.49%) in US Government Agency securities, and $1.0 million (0.98%) in corporate notes or money market accounts with a small residual balance in our Measure O Bonds Cost of Issuance (COI) accounts. Almost all these funds are considered "discretionary" investments meaning that the City can invest this amount as it sees fit within the guidelines of the Investment Policy. With a minimum holdback of at least $22.4 million for cash flow, that leaves up to $79.6 million that can be invested in Agency and other securities (limitation of 75% of portfolio per investment policy). $27.0 million is again currently invested outside of LAIF and staff will continue increasing this throughout the fiscal year as needed as fixed income investment rates remain elevated.

DISCUSSION OF ALLOWABLE INVESTMENTS

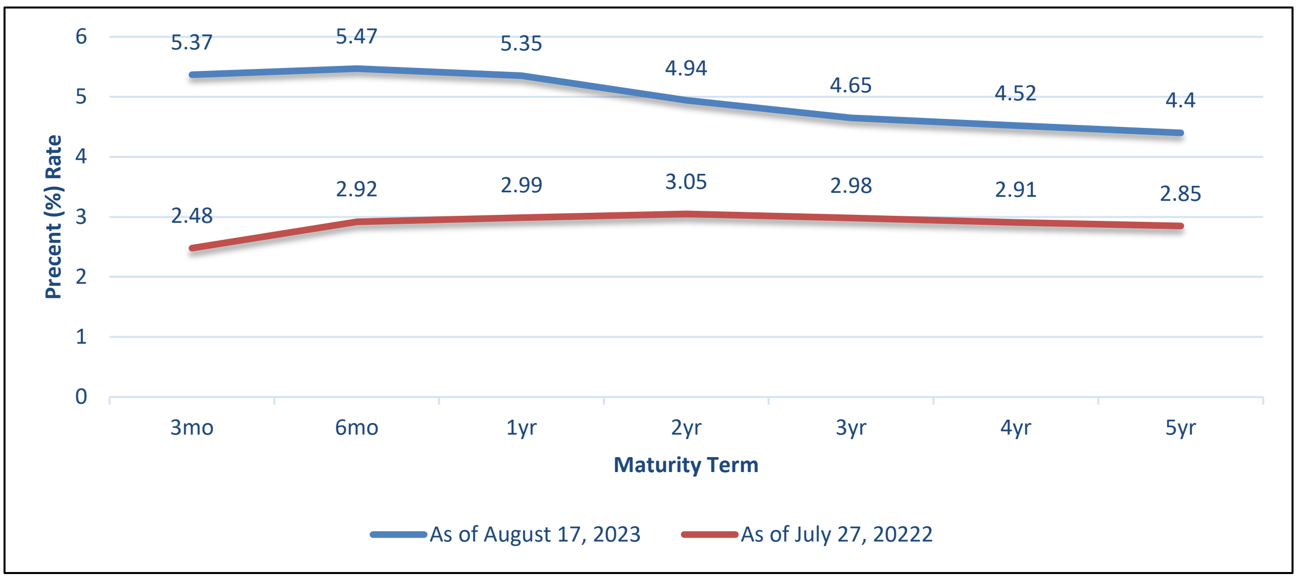
The City's revised investment policy contains a listing of allowable investment instruments along with specified limits and maturities. These include:

- State of California Local Agency Investment Fund (LAIF)
- US Treasury Bills, Notes & Bonds
- US Government Agency Issues (e.g., FNMA & GNMA)
- Corporate Medium-Term Notes
- Banker's Acceptances
- Certificates of Deposit with banks or savings & loan associations
- Repurchase Agreements
- Commercial Paper
- Mutual Funds (allowed by Calif. Gov't Code Sec. 53601(a)-(m))
- Shares of Beneficial Interest Issued by a Joint Powers Authority (JPA) (allowed by Calif. Gov't Code Sec. 6509.9)

It is the City's experience that LAIF provides a safe short-term investment vehicle, and the City has utilized it for its primary source of investment earnings for many years. This fund is generally viewed as a conservative and safe investment choice. In fact, the City is not aware of any municipality that has ever experienced a loss of principal in LAIF. One characteristic of LAIF is that, due to its size (combined State Investment Pool assets valued at approximately $173.5 billion as of July 31, 2023) the rate of return will typically lag the current market. Thus, in periods of rising interest rates, LAIF may have a lower return. Conversely, in a declining market, LAIF will provide investors with an above-market return. The yield as of June 2023 was approximately 3.15% compared to 0.75% one year ago. LAIF yield is expected to increase to a range of 3.80% to 4.15% by the end of calendar year 2023 due to the overall increase in other fixed income investment rates. In addition to improving returns, a key benefit of using LAIF (or similar pooled investment pools) is that it again offers a high degree of liquidity whereby funds can generally be requested and received in the same day. Another benefit is that a minimum of staff administrative effort is required, enabling the time to be spent on other departmental priorities.

US Treasuries are also considered to be one of the safest investment choices available to municipalities due to their being backed by the full faith and credit of the United States Government. However, because of their popularity and under current market conditions, the rate of return tends to be lower than other types of securities. As of August 17, 2023 the 6-month and 2-year term Treasuries are yielding 5.47% and 4.94%, respectively. The 5-year Treasury has a yield of 4.40%. These rates have increased significantly from a year ago due to actions by the Federal Reserve to increase the Federal Funds Rate. For reference, please see Chart 1 below for a year-over-year comparison of the treasury yield curve as of August 17, 2023 and as of July 27, 2022. The current yield curve, as noted previously, is inverted in the out years; suggesting investors expect additional near-term rate hikes and are pessimistic about economic growth. Although an inverted yield curve might be the most reliable indicator of a looming economic downturn, it can also be very imprecise at forecasting the onset of recession. The yield curve has been inverted now for over one year.

Chart 1 – Treasury Yield Curve Comparison



U.S. Agency issues also provide a safe and acceptable rate of return and are still considered a safe investment choice (AAA rated). Agencies can be "callable" meaning they can be redeemed by the issuer prior to maturity or "non-callable (bullet)" meaning they cannot be redeemed prior to maturity. Agencies also issue "discount notes" which have shorter term issues, generally less than 18 months, in which the note is bought at a deep discount and redeemed for face value at maturity. The City has historically purchased primarily callable structured rate agencies to maximize its yields and minimize interest rate risk in the future.

With respect to the upcoming year, it is anticipated that investments outside of LAIF will continue to be made primarily in callable agency securities with some rate protection and an average term of two to four years. Staff, with the possible assistance of external investment advisors, will also evaluate other types of investments allowed by policy that may have yields in excess of LAIF and agency issues, such as short-term commercial paper, corporate notes rated AA or higher, and non-callable agency issues, or other investments that lock in an acceptable rate of return for a longer period of time than LAIF.

RECOMMENDATION

It is recommended that the Finance sub-Committee approve the proposed strategy.

Distribution:
Anne Bybee, Vice Mayor
Sergio Lopez, Council Member
Brian Loventhal, City Manager