Attachment 4

City of Palo Alto Investment Policy Excerpt

https://www.cityofpaloalto.org/files/assets/public/v/1/administrative-services/investment-policies/adopted-investment-policy-2023-24.pdf rate risk.

a) Credit risk is the risk that an obligation will not be paid and a loss will result. The City will seek to minimize this risk by:

- Limiting investment to the safest types of securities or minimum credit quality rating as listed in the "Authorized Investment" section
- Diversifying its investments among the types of securities that are authorized under this investment policy

b) Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investor's portfolio. For example, an investor with large holdings in long-term bonds has assumed significant interest rate risk because the value of the bonds will fall if interest rates rise. The City can minimize this risk by:

- Buying and holding its securities until maturity
- Structuring the investment portfolio so that securities mature to meet cash flow requirements

To further achieve the objective of safety, the amount that can be invested in all investment categories, excluding obligations of the U.S. Government and its agencies, is limited either as a percentage of the portfolio or by a specific dollar amount. These limits are defined under the "Authorized Investments" section.

2. **Liquidity:** Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by maintaining a portion of the portfolio in liquid money market mutual funds or local government investment pools. In addition, the City will maintain one month's net cash needs in short term and/or liquid investments and at least $50 million shall be maintained in securities maturing in less than two years. Although the City's practice is to buy and hold securities to maturity, since all possible cash demands cannot be anticipated, the portfolio will consist of securities with active secondary or resale markets should the need to sell a security prior to maturity arises.

3. **Yield:** Yield on the City's portfolio is last in priority among investment objectives. The investment portfolio shall be designed to obtain a market rate of return that reflects the authorized investments, risk constraints, and liquidity needs outlined in the City's investment policy. Compared to similar sized cities, the City of Palo Alto should be able to take advantage of its relatively large reserve balances to achieve higher yields through long-term investments. In addition, the City will strive to maintain the level of investment of idle funds as close to 100 percent as possible.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITIES

In addition to and subordinate to the Safety, Liquidity, and Yield investment objectives, investments that support sound environmental, social and governance (ESG) objectives are also considered. While the City's portfolio is not classified as an ESG portfolio, investments in entities that support community well-being through practices that emphasize safe and environmentally sound objectives; fair labor practices; and equality of rights regardless of sex, race, age, disability, or sexual orientation, is encouraged. Direct investments in entities that manufacture tobacco products, firearms, and engage in direct production or drilling of fossil fuels is discouraged.

This section applies to new investments (after November 5, 2018) only and does not require divestment of existing investments. Investments in Certificates of Deposit (CDs) and Negotiable Certificates of Deposit are exempt from the ESG investing objective.

SCOPE

A. This investment policy shall apply to all financial assets of the City of Palo Alto as accounted for in the Annual Comprehensive Financial Report (ACFR), including but not limited to the following funds:

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

B. The policy does not cover funds held by the California Public Employees Retirement System (CalPERS), the California Employers' Retiree Benefit Trust (CERBT), Deferred Compensation programs (e.g. ICMA, Hartford), the Authority for California Cities Excess Liability (ACCEL), and the Public Agency Retirement Services (PARS) Section 115 Irrevocable Trust.

C. Investments of bond proceeds shall be governed by the provisions of the related bond indentures.

GENERAL INVESTMENT GUIDELINES

1. The maximum stated final maturity of individual securities in the portfolio should be ten years.

2. A maximum of 30 percent of the par value of the portfolio shall be invested in securities with maturities beyond five years.

3. The City shall maintain a minimum of one month's net cash needs in short term and/or liquid investments.

4. At least $50 million shall be maintained in securities maturing in less than two (2)