Attachment 4

CITY OF MOUNTAIN VIEW

COUNCIL FINANCE COMMITTEE/
INVESTMENT REVIEW COMMITTEE

AGENDA

NOTICE AND AGENDA

SPECIAL MEETING—MONDAY, NOVEMBER 26, 2018
PLAZA CONFERENCE ROOM AT CITY HALL—500 CASTRO STREET
2:30 P.M.

1. **CALL TO ORDER**

2. **ROLL CALL**—Committee members Lisa Matichak, John McAlister, Steven Permut, and Chair Ken Rosenberg.

3. **MINUTES APPROVAL**

   Minutes for the October 31, 2018 meeting have been delivered to Committee members and copies posted on the City Hall bulletin board. If there are no corrections or additions, a motion is in order to approve these minutes.

4. **ORAL COMMUNICATIONS FROM THE PUBLIC**

   This portion of the meeting is reserved for persons wishing to address the Committee on any matter not on the agenda. Speakers are limited to three minutes. State law prohibits the Committee from acting on nonagenda items.

5. **UNFINISHED BUSINESS**

   5.1 **FOLLOW-UP DISCUSSION ON SOCIAL RESPONSIBILITY**

   Presentation by Assistant Finance and Administrative Services Director Suzy Niederhofer on what is included in other agencies' investment policies regarding social responsibility.

   Presentation by Carlos Oblites, Senior Vice President, Portfolio Strategist, of Chandler Asset Management, the City's investment advisor and manager of the Corporate Note program of the City's portfolio on Environmental, Social, and Governance (ESG) ratings.

6. **COMMITTEE/STAFF COMMENTS, QUESTIONS, COMMITTEE REPORTS**

No action will be taken on any questions raised by the Committee at this time.

7. **ADJOURNMENT**

EC/1/FIN
540-11-26-18A

cc: *San Jose Mercury News*

Mountain View Voice

City Council, CM, ACM, CA, FASD, AFASD, File

AGENDAS FOR BOARDS, COMMISSIONS, AND COMMITTEES

- The specific location of each meeting is noted on the notice and agenda for each meeting which is posted at least 72 hours in advance of the meeting. Special meetings may be called as necessary by the Committee Chair and noticed at least 24 hours in advance of the meeting.

- Questions and comments regarding the agenda may be directed to Patty Kong, Finance and Administrative Services Director, at 650-903-6316.

- **SPECIAL NOTICE—Reference: Americans with Disabilities Act, 1990**
  Anyone who is planning to attend a meeting who is visually or hearing-impaired or has any disability that needs special assistance should call the Finance and Administrative Services Department at 650-903-6316 48 hours in advance of the meeting to arrange for assistance. Upon request by a person with a disability, agendas and writings distributed during the meeting that are public records will be made available in the appropriate alternative format.

- The Board, Commission, or Committee may take action on any matter noticed herein in any manner deemed appropriate by the Board, Commission, or Committee. Their consideration of the matters noticed herein is not limited by the recommendations indicated herein.

- **SPECIAL NOTICE—**Any writings or documents provided to a majority of the Council Finance Committee/Investment Review Committee regarding any item on this agenda will be made available for public inspection in the Finance and Administrative Services Department, located at 500 Castro Street, during normal business hours and at the meeting location noted on the agenda during the meeting.

ADDRESSING THE BOARD, COMMISSION, OR COMMITTEE

- Interested persons are entitled to speak on any item on the agenda and should make their interest known to the Chair.

- Anyone wishing to address the Board, Commission, or Committee on a nonagenda item may do so during the "Oral Communications" part of the agenda. Speakers are allowed to speak one time on any number of topics for up to three minutes.

CITY OF MOUNTAIN VIEW

COUNCIL FINANCE COMMITTEE/
INVESTMENT REVIEW COMMITTEE

MINUTES

SPECIAL MEETING—WEDNESDAY, OCTOBER 31, 2018
PLAZA CONFERENCE ROOM AT CITY HALL—500 CASTRO STREET
4:00 P.M.

1. **CALL TO ORDER**

   Chair Rosenberg called the meeting to order at 4:01 p.m.

2. **ROLL CALL**

   Present: Committee members Lisa Matichak, Steven Permut, and Chair Ken Rosenberg.

   Absent: Committee members John McAlister and Janice Phan.

3. **MINUTES APPROVAL**

   Motion—M/S Permut/Matichak—Carried 3-0-2; McAlister, Phan absent—Approve the minutes for the Special Meeting of September 7, 2017.

4. **ORAL COMMUNICATIONS FROM THE PUBLIC**—None.

5. **UNFINISHED BUSINESS**

   5.1 **DISCUSSION ON TWO FOLLOW-UP ITEMS FROM THE INVESTMENT REVIEW COMMITTEE MEETING LAST YEAR FOR:**

   1. **SOCIALLY RESPONSIBLE INVESTING RELATED TO ENERGY COMPANIES**

      Assistant Finance and Administrative Services Director Suzy Niederhofer gave a brief summary of the social responsibility discussion from the prior meeting. Section 6.0 of the Investment Policy does not address energy companies. Staff and Chandler Asset Management (Chandler) had not been able to find a standard rating and stated Environmental, Social, and Governance (ESG) ratings were nonfinancial and subjective. Options staff provided were to exclude all investments in companies that roll up into the Energy Sector or to apply a narrow screen to certain sectors of the Energy Sector, like coal companies.

Committee member Matichak wanted staff to look at other agencies' investment policies to see what they included concerning social responsibility and energy companies. She believed the City of Palo Alto and the Santa Clara Valley Water District now include social responsibility ratings in their policies. Committee member Matichak wanted to know the implications for divesting the Chevron and Exxon Corporate Notes now. Carlos Oblites from Chandler responded that the direct impact is a realized loss of $125,000. Indirectly, not being able to invest in these companies would further limit the diversification of the Corporate Note program of the portfolio and would limit future return potential. The Committee was also reminded that the California Government Code 53600.3 states that the City has a fiduciary responsibility to provide the goals of the code which are safety, liquidity, and then return, in that order. The portfolio has approximately $13.9 million worth of corporate notes in either Chevron or Exxon Mobil. To replace these corporate notes, the portfolio will be compensated less for the amount of risk, going forward.

<u>Comments from the Public</u>

The following expressed their concerns on the topic:

- Michelle Matsumoto
- William Keeley
- Mark Grossman
- Christopher Bedford
- Nassim Nouri
- Melanie Liu

Committee member Permut stated that he believes that the perception of social issues raised is more significant than the additional yield the City is receiving on the approximate 2 percent invested in energy companies of the $638 million portfolio, but there needs to be a formal criteria going forward. He encourages staff to do more research on ESG ratings.

In response to a Committee member's question, Finance and Administrative Services Director Patty Kong stated that it has been the practice to buy and hold a security. The portfolio will realize a loss if a security is sold. Financial advisor Carlos Oblites stated that eliminating Chevron and Exxon will diminish the pool of AA-rated corporate notes. To make up for the loss in yield, the Committee may want to consider lowering the credit quality of the notes or to go out longer, which is a risk to liquidity.

Committee member Matichak expressed her frustration that the Committee had discussed the same issue last year. She would like to see the portfolio divest itself of the Chevron and Exxon notes. She would like to come up with a policy for the future and will allocate time to look at what other cities have done. She would like to meet again soon to discuss this matter further. Staff, the financial advisor, and the Committee discussed further.

Motion—M/S Matichak/Rosenberg—Carried 3-0-2; McAlister and Phan absent—Recommend to the City Council to divest current holdings in Chevron and Exxon; and for staff to come back to the Committee within three months with options for policies for investment strategies going forward to factor in energy companies. In the interim, until a policy has been adopted, no additional purchases should be made of energy companies.

Chair Rosenberg indicated that they are grappling with what it means to not invest in carbon producing companies. It is a very complicated conversation.

2. SEGREGATION OF A PORTION OF THE PORTFOLIO FOR LONGER-TERM MATURITIES

Suzy Niederhofer summarized the research that was requested from the previous meeting on longer-term maturities. Staff identified about 10 percent of the portfolio not needed for cashflow purposes, mainly funds in reserves. Staff does not recommend investing longer-term maturities at this time due to the yield curve being flat. However, staff recommends adding sections in the Policy allowing for longer-term maturities, as allowed by the California Government Code, up to 10 percent of the portfolio. Staff recommends maturities up to 10 years for

U.S. Treasuries and U.S. Agencies. For bonds, staff recommends the maximum maturity, subject to City Council approval, based on the maximum maturity of the bonds issued. Staff also recommends adding to the Policy the segregation of the longer-term maturities from certain reporting requirements, such as modified duration and weighted-average maturity, and maintaining the portfolio's current benchmarks.

Last year, the Committee recommended staff research this topic because the portfolio has grown dramatically and the liabilities are not all short term. Chair Rosenberg feels the City's investing prowess helped to make it an "AAA" rated city and does not want to jeopardize that. The shorter the duration, the more stable it is. He does not support it. No motion was brought up to accept staff's recommendations.

6. **NEW BUSINESS**

6.1 **PRESENTATION ON THE STATUS OF THE CITY'S PORTFOLIO AND INVESTMENT POLICY**

Carlos Oblites from Chandler made the presentation regarding the portfolio. He stated that interest rates are on the rise. The Federal Open Market Committee (FOMC), which sets the overnight lending rate between banks, also known as the Federal Funds Target Rate, has tightened three times this year already. They are expecting to tighten one more time in December and indicating that they may tighten three more times next year. The reason for the tightening is to put the brakes on the growing economy. The FOMC has a dual mandate to promote policies that the economy grows to support employment but also to keep inflation in check so prices do not run out of control and derail the economy. The lending rate impacts yields on securities two years and shorter. The FOMC has tools in place to tamp down inflation. The economy is growing due to a strong consumer sector and a strong business sector. Increasing interest rates are a result of the growth; that has a dual effect on the portfolio. First, the interest income on the portfolio goes up; second, the existing investments devalue.

Carlos Oblites then reviewed the report on the portfolio with the Committee. They will continue to diversify as much as possible. Although the Corporate Notes component will shrink due to limited notes in the "AA" range. This is a well-diversified portfolio, in terms of maturity, sector, and issuer. The portfolio is poised to perform well in terms of safety, liquidity, and return in the future. All investments comply with the Investment Policy and the Government Code.

Chair Rosenberg would like to see, in future reporting for Portfolio Performance (page 22), a column for inflation since inception (1995).

6.2 REPORT FROM INVESTMENT COMMITTEE

Suzy Niederhofer presented an overview of the draft annual report to City Council. Growth of the portfolio is due to new development fees. There were no violations to the Policy. No changes to the policy were taken last year.

Any comments by the Committee will be added to the draft report. Staff recommended the following changes to the policy: (1) change Supra National to Supranational; (2) correct the rating for Supranational Securities from "AA-/Aa-" to "AA/Aa;" and (3) clarify the ambiguity of the issuer rating of Supranational Securities by changing the requirement of the rating to be from two of the three rating agencies, to be from only one rating agency.

Motion—M/S Matichak/Rosenberg—Carried 3-0-2; McAlister, Phan absent—To accept staff's recommendation, change section 10.1.13 (Supranational securities) from "by at least 2 of the 3 rating agencies" to " by one rating agency,"change the rating from "AA-/Aa-" to "AA/Aa," and change "Supra National" to Supranational.

7. COMMITTEE/STAFF COMMENTS, QUESTIONS, COMMITTEE REPORTS

Patty Kong announced that Committee member Janice Phan has tendered her resignation from the Investment Review Committee. A search for a replacement member will be done.

A picture needs to be taken of the Committee for the Celebration of Service Dinner. The Committee will have their picture taken at the next meeting.

8. ADJOURNMENT

The meeting was adjourned at order at 5:40 p.m.

EC/1/FIN
540-10-31-18mn

CITY OF MOUNTAIN VIEW

MEMORANDUM
Finance and Administrative
Services Department

DATE: November 26, 2018

TO: Investment Review Committee

FROM: Suzanne Niederhofer, Assistant Finance and Administrative Services Director
Patty J. Kong, Finance and Administrative Services Director

VIA: Daniel H. Rich, City Manager

SUBJECT: Investment Review Committee Review of Social Responsibility

PURPOSE

For the Investment Review Committee (Committee) to review the social responsibility section of City Council Policy B-2 Investment Policy (Policy) (Attachment 1 in draft form with recommended changes).

BACKGROUND

The Committee held its annual meeting to review the City's investment portfolio and policy on October 31, 2018. One of the topics discussed was the Social Responsibility provisions under Section 6.0 of the Policy, specifically energy companies and the corporate note investments in Chevron and Exxon. Section 6.0 of the Policy does not address energy companies and at last year's meeting, the Committee directed staff to research potential ratings for energy companies and return to the Committee with findings. Staff returned at the October 31, 2018 annual meeting with its assessment of the lack of an effective rating system and provided the following options:

1. Exclude all investments in companies that roll up into the Energy Sector. This would be the most straightforward way to exclude "dirty fuels." However, it would reduce the number of Corporate Notes available to purchase within the City's current Policy.

2. Exclude certain sectors within the Energy Sector, like coal. This would require screening investments for the sector, though effective screens may not be available.

This may have an impact on the number of Corporates available to purchase within the City's current Policy. However, if coal is chosen as the sector to exclude, it will have no current impact.

At the meeting, the Committee requested additional information, a more in-depth analysis of what is included in other Agencies' investment policies, and information on an "ESG" rating that would identify socially responsible energy companies. An ESG rating is based on three criteria: Environmental (climate change, renewable energy, and sustainability), Social (diversity, labor relations, and conflict minerals), and Governance (management structure, board independence, and executive compensation). In addition, the Committee approved a motion to recommend to the City Council the City divest its holdings in Chevron and Exxon immediately.

On March 6, 2012, staff brought to the Committee proposed changes to the Investment Policy based on the direction from the Committee to review alternatives to maximize the interest yield on the City's investment portfolio (Attachment 2). One of the proposed changes was the Corporate Note investment program. However, as stated in the staff report, staff does not have the expertise or the capacity to analyze and monitor corporate investments and staff recommended Chandler Asset Management (Chandler) manage the portion of the portfolio invested in Corporate Notes. The Corporate Note investment program was implemented in July 2013 and is managed by Chandler.

The City's Policy has included objectives for social responsibility for many years (prior to 2004). The provisions pertain to investments in Banker's Acceptances, Corporate Notes, and Certificates of Deposit. The objectives include: to encourage investments in entities that support community well-being through safe and environmentally sound practices and fair labor practices, and entities that support equality of rights; to encourage investments in entities that promote community economic development and financial institutions that have demonstrated involvement in the development or rehabilitation of low-income affordable housing; and provide that no investment shall be made in securities of a financial institution that do not have a Community Reinvestment Act rating of Satisfactory or Outstanding, in a company that manufactures cigarettes, or in entities that manufacture firearms (Pages 4 to 7 of Attachment 1).

The draft minutes from the October 31, 2018 meeting are presented at this meeting for approval as Item No. 3.

ANALYSIS

Investment Policies:

At the October 31, 2018 meeting, the Committee referenced two agencies, the Santa Clara Valley Water District (SCVWD) and the City of Palo Alto (Palo Alto), that were thought to have ESG ratings included in their investment policy. Staff reviewed these investment policies and found the following:

- SCVWD's investment policy (Attachment 3—excerpt of social responsibility section) is the most robust and includes guiding principles using ESG factors as a scorecard to screen investments in corporate and financial institution securities. It excludes investment in companies significantly involved in the production or sale of fossil fuels, tobacco, and other products that are environmentally harmful, in addition to other demonstrated factors, to the extent possible. However, it is not clear that there is a rating/value assigned to the scorecard factors and that it is staff's general evaluation of the scorecard factors that would determine if the entity would qualify for being socially responsible.

- Palo Alto's investment policy (Attachment 4—excerpt of social responsibility section) provides a general paragraph stating the policy encourages investments in entities that support community well-being through safe and environmentally sound practices and fair labor practices and equality of rights. It discourages investments in entities that manufacture tobacco products, firearms, and engage in direct production or drilling of fossil fuels.

Staff also researched the investment policies of surrounding and comparable agencies. The Cities of Redwood City, San Mateo, and Milpitas do not currently have a section in their investment policy on social responsibility. The Cities of Sunnyvale and San Jose and the County of Santa Clara have general paragraphs in their investment policies similar to Palo Alto (Attachments 5 through 7—excerpts of social responsibility section).

ESG Rating:

The Committee requested information on an "ESG" rating that could be used to identify socially responsible energy companies. Committee member Permut provided a list of companies that provide ESG ratings. The list was forwarded to Chandler along with a request to provide a recommendation for a rating. Chandler's response is as follows:

Most of the ESG services are indexes to which investment managers compare their own investments. The Calvert Index is an example. There are some services that can be looked at which provide a rating based on the provider's proprietary criteria. Bloomberg and Moody's are examples of these. The challenge with these types of services is that their criteria may not align with the City's priorities. For example, hypothetically, Calvert may include Chevron in its index (or Bloomberg may give them a "good" rating) because they may mitigate their negative business practices with positive activities, and the Committee has made its wishes known that oil exploration companies are to be avoided. The other challenge is that these indices are not all-inclusive. There may be issuers that do not have an ESG track record one way or another.

Chandler researched both Committee member Permut's list, the investment policies of other cities, as well as their own resources, and found that ESG services marketed for investors vary widely:

- Many provide a framework for judging issuers from an ESG standpoint, but the basis to judge these frameworks are conducted on a peer comparison, which may not filter out dirty fuels (Bloomberg, Sustainalytics, S&P, Moody's). Moreover, ESG ratings that could be used to identify socially responsible energy companies are very subjective from one party to another, and may allow for issuers the City wishes to avoid.

- Some of the ESG services are theme-driven, such as those supporting clean energy or clean climate bonds. These certifications are done on an issue rather than issuer basis, and many of the issues are very small and less liquid. Many are also for bonds that are excluded from the City's portfolio by law (rated below the category of A, or foreign-issued bonds).

- Some ESG ratings provided by some ESG services (Morningstar) are provided as an average for investments held in a mutual fund setting, rather than by issuer. The City generally does not purchase mutual funds. Moreover, as an average, these scores may still allow for the investment in issuers actively involved in activities that may be contrary to the City's goals.

- Many of the ESG composite scores may promote values that may not be identified as values promoted by the City.

- Many ESG services simply provide data to allow the investor to establish their own criteria based on the data provided.

In light of the varying degrees of applicability for the ESG frameworks discussed, Chandler recommends the City consider the following direction:

- The City may consider including language in the investment policy that excludes specific industries.

- The City may determine and specify those socially responsible investment criteria that are important to City stakeholders, and include language in the City's investment policy encouraging investments in issuers that have demonstrated concern for these issues as determined by the City.

- The City should state that ESG concerns should be considered only after safety, liquidity, and return have been met.

A stronger approach for the City would be for the Committee and City staff to develop its own list of ESG priorities similar to what Santa Clara Valley Water District has done. Then an index like the Calvert Index may be used for guidance only (not a hard list). Chandler recommends the language in the policy should then describe investments in ESG issuers as "encouraged" to avoid some of the challenges described above. The City's current Policy and other agencies' investment policies provided currently take this approach.

<u>RECOMMENDATION</u>

Staff is recommending adding Section 6.1.3 under Social Responsibility, Social and Environmental Concerns and Section 6.3.3 under Social Responsibility, Prohibited Investments to the Policy, to read as follows:

6.1.3 Investments are encouraged in entities involved in the production of renewable energy and sustainable agriculture, and that demonstrate a commitment to environmental sustainability, and transparency and accountability in corporate governance.

6.3.3 No investment is to be made in entities that engage in direct production or drilling of fossil fuels and other products that are environmentally harmful.

An additional option for the Committee's consideration is as follows:

1. Add an ESG Factors "scorecard" similar to the one in SCVWD's investment policy, and add Section 6.3.4 under Social Responsibility, Prohibited Investments, to read

as follows: "To the extent possible, using the ESG Scorecard in Exhibit B, no investment is to be made in entities with a demonstrated record of poor practices with respect to environmental regulation, greenhouse gas emissions, toxins, hazardous waste, or environmental justice."

Recommendations Approved at the October 31, 2018 Meeting:

In addition to the above recommendations, the Committee approved the following updates to Supranational Securities Section 10.1.13 (Page 13 of the Policy), and Page 2 of Exhibit A to the Policy, which are included in the draft policy (Attachment 1) and will be presented to the City Council for approval.

- Change "Supra National" to "Supranational."
- Correct the rating for Supranational Securities to "AA/Aa" from "AA-/Aa-."
- Change the minimum rating to be from one rating agency instead of two.

NEXT STEPS

Staff will summarize the Committee's discussion, any observations, and recommendations in a revised draft report, to be reviewed by the Chair, before transmitting the annual report to the City Council in December/January.

SN-PJK/3/FIN
541-11-26-18M

Attachments:
1. Draft Updated Council Policy B-2, Investment Policy
2. March 6, 2012 IRC Meeting Report
3. Santa Clara Valley Water District Investment Policy Excerpt
4. City of Palo Alto Investment Policy Excerpt
5. City of Sunnyvale Investment Policy Excerpt
6. City of San Jose Investment Policy Excerpt
7. Santa Clara County Investment Policy Excerpt

Attachment 1

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY NO.: B-2

PURPOSE:

A. This Investment Policy is set forth by the City of Mountain View for the following purposes:

1. To establish a clear understanding for the Council, City management, responsible employees, and third parties of the objectives, policies, and guidelines for the investment of the City of Mountain View's idle and surplus funds.

2. To offer guidance to investment staff and any outside advisors on the investment of City funds.

3. To establish a basis for evaluating investment results.

B. The general purpose of this Investment Policy is to outline a philosophy and attitude which will guide the investment of City funds toward the desired investment goals. It is intended to be sufficiently specific to be meaningful, yet adequately flexible to be practical.

POLICY:

It is the policy of the City of Mountain View to invest public funds in a manner that will provide the highest investment return with maximum security while meeting the daily cash flow demands of the City and conforming to all State and local statutes governing the investment of public funds.

1.0 SCOPE:

This Investment Policy applies to all cash assets of the City of Mountain View. Cash held by the City shall be pooled in order to more effectively manage City cash resources. All pooled funds are accounted for in the City of Mountain View's Comprehensive Annual Financial Report and include:

1.1 Funds:

1.1.1 General Fund.

1.1.2 Special Revenue Funds.

1.1.3 Debt Service Funds.

1.1.4 Capital Project Funds.

1.1.5 Special Assessment District Funds.

1.1.6 Enterprise Funds.

1.1.7 Internal Service Funds.

1.1.8 Trust and Agency Funds.

Excluded funds are those held with the fiscal agent. They have their own specific "permitted investments" section in the bond covenants.

1.2 Funds for major capital projects or for purposes of accumulating short-term funds for a lump-sum payment (e.g., the City's Public Employees' Retirement System (PERS) annual prepayment, etc.) in excess of $5 million as selected by the Finance and Administrative Services Director and approved by the City Manager shall be excluded from the portfolio for purposes of Section 9.0 of the policy.

2.0 PRUDENCE:

Persons authorized to make investment decisions on behalf of the City investing public funds pursuant to this policy 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 City, 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 City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

3.0 TERMS:

3.1 Market Cycle. A market cycle is defined as a period of time which includes a minimum of two consecutive quarters of falling interest rates followed by a minimum of two consecutive quarters of rising interest rates.

3.2 Economic Cycle. A period of time which includes a minimum of two consecutive quarters of growth in GDP, and a minimum of two consecutive quarters of decline in GDP.

3.3 Time-Weighted Total Rate of Return. A measurement of portfolio return which eliminates the effect of the timing of contributions to and withdrawals from the fund.

3.4 Benchmark. A segment of the securities market with characteristics similar to the subject portfolio. It is used to compare performance to the performance of the appropriate segment of the market. The Benchmark for the City's portfolio shall be the blended Merrill Lynch Index of three-month Treasuries, six-month Treasuries, and one- to five-year Government securities or an equivalent index.

3.5 Modified Duration. A measure of the responsiveness of a bond's or a portfolio's change in market value for a given change in the general level of yields. Modified duration is equal to duration divided by (one plus market yield/number of coupon payments per year).

4.0 OBJECTIVES:

The primary objectives, in priority order, of the City of Mountain View's investment activities shall be:

4.1 Safety. Safety of principal is the foremost objective of the investment program. Investments of the City of Mountain View shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by limiting investment risk in the portfolio. Additionally, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

4.2 Liquidity. The City's investment portfolio shall be structured in a manner which will provide funds from maturing securities and interest payments to meet anticipated cash flow demands.

Short-term funds, available in seven days or less, shall comprise at least 5 percent of the portfolio. If these funds are drawn for cash flow purposes, the 5 percent shall be reestablished as soon as possible.

4.3 Return on Investment. The City of Mountain View's investment portfolio shall be designed with the objective of attaining a market rate of return throughout market and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. See Section 5.0 of this Investment Policy for more specific information regarding return objectives.

5.0 INVESTMENT PERFORMANCE OBJECTIVE:

The investment performance objective for the City of Mountain View's portfolio shall be to earn a time-weighted total rate of return over a market cycle which equals the time-weighted total rate of return on the Benchmark index, as defined in Section 9.0.

6.0 SOCIAL RESPONSIBILITY:

In addition to the objectives in Sections 4.0 and 5.0 regarding safety, liquidity, return on investment, and portfolio performance, investment of City funds should be guided by the following socially responsible investment provisions when investing in securities of nongovernmental entities. These provisions pertain to investments in banker's acceptances, medium-term corporate notes, and certificates of deposit. All other permitted investments as defined in Section 10.0 of this policy are excluded.

6.1 Social and Environmental Concerns

6.1.1 Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices.

6.1.2 Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, or sexual orientation.

6.1.3 Investments are encouraged in entities involved in the production of renewable energy and sustainable agriculture, and that demonstrate a commitment to environmental sustainability, and transparency and accountability in corporate governance.

6.2 Community Investments

6.2.1 Investments are encouraged in entities that promote community economic development.

6.2.2 Investments are encouraged in financial institutions that have a demonstrated involvement in the development or rehabilitation of low-income affordable housing.

6.2.3 No investment is to be made in securities of financial institutions that do not have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding.

6.3 Prohibited Investments

6.3.1 No investment is to be made in a company that manufactures cigarettes as identified by the Investors Responsibility Research Center.

6.3.2 No investment is to be made in entities that manufacture firearms as identified by the Investors Responsibility Research Center.

6.3.3 No investment is to be made in entities that engage in direct production or drilling of fossil fuels and other products that are environmentally harmful.

6.4 Implementation

6.4.1 Implementation of Section 6.1. Oversight of corporate compliance with laws and regulations governing environmental practices, labor standards, and civil rights are the responsibility of State and Federal agencies.

1. The City Council will consider complaints or concerns regarding any firm eligible to receive a City investment covered by these provisions and determine whether the firm(s) should not be considered for City investment. Upon majority vote of the City Council determining a firm(s) should not be eligible for a City investment, the firm(s) will be placed on a list maintained by staff.

2. Staff shall refer to this list prior to placing investments covered by these provisions and assure no such investments are made.

3. If the City is holding an investment in a firm that is subsequently determined by Council to be ineligible for City investment, staff shall divest of the security as quickly as practical (taking into consideration market conditions) but no later than 180 days from the date of the Council determination.

4. Staff is not required to determine the compliance of a potential investment with the objectives of this provision prior to placing an investment other than checking the list of ineligible firms in Item 2 above.

6.4.2 Implementation of Section 6.2. Staff is required to ascertain the Federal government's CRA compliance rating of a financial institution and assure it meets the policy standard prior to placing an investment covered by these provisions.

6.4.3 Implementation of Section 6.3. Prior to making an applicable investment, staff is required to refer to information obtained from the Investor's Responsibility Research Center identifying cigarette and firearm manufacturers. No additional research is required to comply with these provisions.

7.0 STRUCTURE AND RESPONSIBILITY:

This section of the Investment Policy defines the overall structure of the investment management program.

7.1 Authority to manage the City of Mountain View's investment program is derived from the Government Code of California, Section 53600, *et seq*., and the City Charter.

7.1.1 Responsibilities of the City Council. The City Council shall consider and adopt a written Investment Policy in accordance with Section 15 of this policy. As provided in this policy, the Council shall receive and review monthly Investment Reports.

7.1.2 Responsibilities of the City Manager. The City Manager is responsible for directing and supervising the Finance and Administrative Services Director. He/she is also responsible to keep the City Council fully advised of the investment portfolio and as to the financial condition of the City.

7.1.3 Responsibilities of the Finance and Administrative Services Director. The Finance and Administrative Services Director is appointed by the City Manager and is subject to his/her direction and supervision. The Finance and Administrative Services Director is charged with responsibility for the conduct of all Finance and Administrative Services Department functions, including the custody and investment of City funds and the development of procedures to implement this Investment Policy.

Under general direction of the City Manager, the Finance and Administrative Services Director shall have responsibility for all decisions and activities of the City's investment program. The Finance and Administrative Services Director shall establish procedures for the operation of the investment program consistent with the Investment Policy.

Procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements, and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may commit to, or place, an investment except as provided under the terms of this policy and the procedures established by the Finance and Administrative Services Director.

The Finance and Administrative Services Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Except funds placed for purposes of overnight investments, which shall consist of investment placed for up to five days, excluding holidays and weekends, or deposits and withdrawals from the State-run Local Agency Investment Fund (LAIF), the Finance and Administrative Services Director, or written designee in his absence, shall approve, in writing, all investment purchases and sales prior to the settlement of the transaction.

7.1.4 Responsibilities of the Investment Officer. The Investment Officer is appointed by the Finance and Administrative Services Director and is subject to his/her direction and supervision. The Investment Officer is charged with the responsibility for and conduct of the day-to-day management of the investment program.

8.0 AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS:

The Investment Officer will maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by State law. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness. These may include primary dealers or regional dealers. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Investment Officer with the following:

1. Audited financial statements for the institution's three most recent fiscal years.

2. Completed financial institution or broker/dealer questionnaire.

3. A statement certifying that they have reviewed the City's Investment Policy and that all securities offered to the City shall comply fully with all provisions of the California Government Code and with this Investment Policy.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City. An annual review of the financial condition of qualified bidders will be conducted by the Investment Officer.

9.0 EXPOSURE TO MARKET RISK:

9.1 The target modified duration of the portfolio shall be equal to the modified duration of the following blend of Merrill Lynch indices: 10 percent three-month Treasuries, 10 percent six-month Treasuries, 80 percent one- to five-year Government (the Benchmark).

9.2 Portfolio duration shall be rebalanced within 3 percent at least quarterly with the intent of achieving an average portfolio duration over market cycles approximately equal to the target modified duration described in Paragraph 9.1.

9.3 Portfolio duration may not vary from the target modified duration by more than ±15 percent at any time.

9.4 The maximum stated final maturity of individual securities in the portfolio may not exceed five years. Some categories of investments are further limited as described in Section 10.0 below.

10.0 AUTHORIZED AND SUITABLE INVESTMENTS:

All investments shall be made in accordance with Sections 53600, *et seq*., of the Government Code of California and as described in the "Permitted Investments" section of this Investment Policy and as summarized in Exhibit "A."

10.1 Permitted investments under this policy shall include:

10.1.1 Securities issued by the U.S. Government or senior securities of an agency of the U.S. Government and fully guaranteed as to payment by the U.S. Government or agency of the U.S. Government. Permitted securities shall have fixed coupons and fixed maturity dates. Investment in mortgage-backed bonds and CMOs is not governed by this Section 10.1.1 even if such bonds are issued by agencies of the U.S. Government. Investment in CMOs is prohibited. (See Section 10.1.2 for conditions of purchase of mortgage-backed securities.) Investments in securities issued by the U.S. Government shall be maintained at a minimum of 25 percent of the total portfolio. Investment in senior securities issued by agencies of the U.S. Government shall be limited to a maximum of 50 percent of the total portfolio and 25 percent of the total portfolio in securities issued by any one Federal agency.

10.1.1.1 Securities fully guaranteed by the U.S. Government such as those under the Temporary Liquidity Guarantee Program (TLGP) shall be considered permitted investments under the same guidelines as Section 10.1.1 of this policy.

10.1.2 Mortgage-backed securities with a fixed coupon issued by an agency of the U.S. Government, provided that the stated final maturity of such securities does not exceed five years from the date of purchase. Investment in securities permitted under this section shall be limited to a maximum of 20 percent of the total portfolio.

10.1.3 Commercial paper of "prime" quality rated a minimum of P-1 by Moody's Investor Services (Moody's) or A-1 by Standard & Poor's, Inc. (S&P) provided that: (a) the maturity does not exceed 180 days from the date of purchase; (b) the issuer is a corporation organized and operating in the United States with assets in excess of $500 million; and (c) no more than 15 percent of the total portfolio is invested in commercial paper.

10.1.4 Banker's acceptances of "prime" quality issued by institutions the short-term obligations of which are rated a minimum of P1 by Moody's or A1 by S&P provided that: (a) the acceptances are eligible for purchase by the Federal Reserve System; (b) the maturity does not exceed 180 days; and (c) no more than 20 percent of the total portfolio may be invested in banker's acceptances.

10.1.5 Medium-term (or corporate) notes with fixed coupons and fixed maturity 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, the long-term obligations of which are rated at least "AA-/Aa-" or equivalent by at least two of the three rating agencies (S&P, Moody's, and Fitch). No more than 15 percent of the total portfolio may be invested in eligible medium-term or corporate notes. The maximum maturity of medium-term corporate notes is five years. Investments in medium-term notes issued by agencies of the Federal Government are governed by Section 10.1.1 of this policy.

10.1.6 Mutual funds invested in U.S. Government securities which strive to maintain a price of $1.00 per share ("Government money market funds") with a minimum of $500 million in total portfolio value and a rating of Aaa by Moody's and AAA by S&P. Investment in such funds shall not exceed 10 percent of the total portfolio.

10.1.7 Certificates of deposit (CDs) with fixed coupons and fixed maturity date which may not exceed two years.

10.1.7.1 Insured deposits, time deposits not exceeding the Federal Deposit Insurance Corporation's (FDIC) deposit insurance limit, shall be permitted only in those financial institutions which are active members of the FDIC. Total insured deposits may not exceed 10 percent of the total portfolio.

10.1.7.2 Secured (collateralized) time deposits shall be permitted only in those financial institutions meeting the following criteria: (a) in good standing with the California State Collateral Pool; and (b) having a net operating profit in the two most recently completed years; and (c) having long-term debt currently rated A- or higher by S&P or A3 or higher by Moody's, or having short-term debt rated at least A-1 by S&P or P-1 by Moody's. Total secured time deposits may not exceed 10 percent of the total portfolio.

10.1.7.3 Unsecured (negotiable) deposits (NCDs) shall be permitted only in those financial institutions meeting the criteria listed in Subsection 10.1.7.2 and, in addition, having total assets in excess of $1 billion. Total NCDs may not exceed 10 percent of the total portfolio.

10.1.8 Local Agency Investment Funds (LAIF) administered by the State Treasurer's Office. No more than 20 percent of the total portfolio may be invested in LAIF.

10.1.9 Passbook accounts maintained solely to provide for ongoing operational needs shall be subject to the requirements of this policy.

10.1.10 Municipal bonds issued by the City of Mountain View or any component unit of the City at limits and maturity as approved by the City Council.

10.1.11 Legal settlements. Any noncash financial instrument, promissory note, or other form of indebtedness acquired by the City as part of a legal settlement.

10.1.12 Callable Treasuries and Agencies (as defined by Section 10.1.1) and Medium-Term Corporate Notes (as defined by Section 10.1.5) Securities. Up to 10 percent of the total portfolio may be invested within the guidelines of the respective defined sections. Securities with "make whole calls" are not included in the callable exposure limit.

10.1.13 Supra~~-N~~national Securities. U.S. dollar denominated, senior unsecured, unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), the long-term obligations of which are rated at least "AA-/Aa-" or equivalent by at least one~~two~~ of the three rating agencies (S&P, Moody's, and Fitch). No more than 10 percent of the total portfolio may be invested in eligible Supra~~-N~~national securities. The maximum maturity of Supra~~-N~~national securities is five years.

10.2 Prohibited investments. Investments not specifically delineated in Section 10.1 are prohibited. Prohibited investments include, but are not limited to:

10.2.1 Collateralized mortgage obligations, even if issued by agencies of the U.S. Government.

10.2.2 Repurchase agreements and reverse repurchase agreements.

10.2.3 Futures and options.

10.3 The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity, or yield of the portfolio in response to market conditions or City's risk preferences.

If securities owned by the City of Mountain View 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 and Administrative Services 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 security in the portfolio is downgraded, the Finance and Administrative Services Director shall notify the Investment Review Committee of the downgrade.

11.0 DIVERSIFICATION REQUIREMENTS:

11.1 With the exception of securities issued by the U.S. Government and its agencies, no more than 5 percent of the portfolio may be invested in securities of any one issuer.

11.2 A minimum of 25 percent of the portfolio will be invested in securities issued by the U.S. Government.

11.3 No more than 50 percent of the portfolio may be invested in securities issued by agencies of the U.S. Government.

11.4 No more than 25 percent of the portfolio may be invested in securities issued by any single agency of the U.S. Government.

11.5 No individual holding shall constitute more than 5 percent of the total debt outstanding of any issuer.

11.6 No more than 20 percent of the portfolio may be invested in banker's acceptances.

11.7 No more than 15 percent of the portfolio may be invested in commercial paper.

11.8 No more than 15 percent of the portfolio may be invested in medium-term (corporate) notes.

11.9 No more than 10 percent of the portfolio may be invested in government money market funds.

11.10 No more than 10 percent of the portfolio may be invested in insured certificates of deposit.

11.11 No more than 10 percent of the portfolio may be invested in secured time deposits.

11.12 No more than 10 percent of the portfolio may be invested in unsecured (negotiable) deposits.

11.13 No more than 10 percent of the portfolio may be invested in callable securities. Securities with "make whole calls" are not included in the callable exposure limit.

11.14 The cost value of the security will be used when calculating diversity compliance.

11.15 No more than 10 percent of the portfolio may be invested in Supra National securities.

12.0 SAFEKEEPING AND CUSTODY:

All securities transactions entered into by the City of Mountain View shall be conducted on a delivery-versus-payment (DVP) basis. All securities will be held by a third-party custodian, which shall be a bank trust department, designated by the Finance and Administrative Services Director and evidenced by monthly custodial statements.

13.0 INTERNAL CONTROL:

The Finance and Administrative Services Director shall establish and maintain a system of appropriate internal controls to ensure compliance with policies and procedures. The controls are designed to prevent losses of public funds arising from fraud, error, or imprudent actions by employees and officers of the City. The most important controls are: separation of duties, separation of transaction authority from accounting and bookkeeping, third-party custody of securities, delegation of authority, written confirmation of telephone transactions, documentation of transactions and strategies, and periodic review of controls.

14.0 REPORTING AND REVIEWS:

14.1 Monthly. Monthly investment reports shall be submitted by the Finance and Administrative Services Director to the City Council and the City Manager. These reports shall disclose the following information about the risk characteristics of the City's portfolio:

14.1.1 Cost and accurate and complete market value of the portfolio (market value includes accrued interest).

14.1.2 Modified duration of the portfolio compared to Benchmark.

14.1.3 Dollar change in value of the portfolio for a 1 percent change in interest rates.

14.1.4 A concise narrative, including pertinent information regarding exposure to investment risk, exceptions to investment policy (if any) and market or economic trends which may impact the City's investments.

14.1.5 Percent of portfolio maturing within one year.

14.1.6 Average portfolio credit quality.

14.1.7 Percent of portfolio with credit ratings below "AA-/Aa-" or equivalent and a description of such securities.

14.1.8 Listing of any transactions or holdings which do not comply with this policy or with the California Government Code.

14.1.9 Time-weighted total rate of return for the portfolio for the prior 3 months, 12 months, and for the year-to-date, compared to the Benchmark returns for the same periods.

14.2 Semiannual. On a semiannual basis, the Finance and Administrative Services Director and the City Manager shall meet with an independent, external investment advisor. The advisor will review compliance with policies and procedures; calculate the market value of the City's holdings; report on overall portfolio risk exposure and investment results; and make recommendations, if needed, regarding investment strategy, risk, or any aspect of the investment program.

The Finance and Administrative Services Director and the investment advisor shall prepare a report for the City Council which summarizes the semiannual meeting and includes any pertinent findings or recommendations of the external advisor.

14.3 Annual. An Investment Review Committee shall be established by the City Council. The Investment Review Committee shall include members of the City Council Finance Committee and two public members appointed by the City Council who have expertise in the area of fixed income investments. The Investment Review Committee shall meet on an annual basis with the Finance and Administrative Services Director, the City Manager, and the external advisor to review the portfolio. The Investment Review Committee shall report its findings and recommendations to the City Council.

15.0 INVESTMENT POLICY ADOPTION:

The City of Mountain View's Investment Policy shall be adopted by resolution of the City Council of the City of Mountain View. The policy shall be reviewed each fiscal year by the Council Finance Committee and/or Investment Review Committee, and any modifications made thereto must be approved by the City Council at a public meeting.

Revised:
Revised: December 8, 2015, Resolution No. 18011
Revised: October 28, 2014, Resolution No. 17897
Revised: December 4, 2012, Resolution No. 17735
Revised: November 15, 2011, Resolution No. 17658
Revised: December 7, 2010, Resolution No. 17561
Revised: December 8, 2009, Resolution No. 17458
Revised: November 18, 2008, Resolution No. 17341
Revised: December 7, 2004, Resolution No. 16956
Revised: August 3, 1999, Resolution No. 16393
Revised: July 29, 1997, Resolution No. 16143
Revised: July 30, 1996, Resolution No. 15984A
Revised: March 26, 1996, Resolution No. 15939
Revised: May 30, 1995, Resolution No. 15842
Revised: May 25, 1993, Resolution No. 15571
Revised: December 8, 1992, Resolution No. 15505
Revised: February 11, 1992, Resolution No. 15369
Revised: February 12, 1991, Resolution No. 15233
Revised: July 31, 1990, Resolution No. 15153
Revised: December 12, 1989
Effective Date: December 16, 1968, Resolution No. 8125

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ELIGIBLE INVESTMENTS AND LIMITS CRITERIA

With the exception of securities issued by the U.S. Government and its agencies, no more than 5 percent of the portfolio may be invested in securities of any one issuer.

No individual holding shall constitute more than 5 percent of the total debt outstanding of any issuer.

Type	Conditions	Rating	Limits	Maturity
U.S. Treasury Bills, Notes, and Bonds	Fixed coupons, fixed maturity dates, no CMOs.	N/A	25% Minimum	5 Years
U.S. Government Agency Issues (e.g., F.N.M.A., G.N.M.A., etc.)	Fixed coupons, fixed maturity dates, no CMOs.	N/A	Total 50% of Portfolio in U.S. government agencies. 25% per Agency	5 Years
Mortgage-Backed Securities	Issued by an agency of the U.S. government.	N/A	Total 20% of Portfolio in U.S. government agencies. 25% per Agency	5 Years
Commercial Paper	Organized and operated in the U.S. with assets in excess of $500 million.	A1/P1	15% of Portfolio	180 Days
Banker's Acceptances	Eligible for purchase by the Federal Reserve System.	A1/P1	20% of Portfolio	180 Days
Medium-Term Corporate Notes	Fixed coupons, fixed maturity.	AA-/Aa- or equivalent from 2 of 3 rating agencies	15% of Portfolio	5 Years
Local Agency Investment Fund (LAIF)	N/A	N/A	20% of Portfolio	On Demand
Certificates of Deposit	Fixed coupons and fixed maturity date.	FDIC insured not exceeding FDIC's deposit insurance limit; secured—see 9.1.7.2; unsecured—see 9.1.7.2	10% of Portfolio for each type	2 Years
Mutual Funds	Invested in U.S. government securities; strive for $1 per share price. Minimum $500 million in total portfolio value.	AAA/Aaa	10% of Portfolio	N/A

Type	Conditions	Rating	Limits	Maturity
Municipal Bonds	City of Mountain View or a component unit of the City of Mountain View.	N/A	As approved by Council.	As approved by Council.
Callable Securities	Treasuries, Agencies, and Medium-Term Corporate Notes.	Same as Security	10% of Portfolio (excluding Securities with "make whole calls")	Same as Security.
Supra~~-N~~national Securities	Dollar denominated, senior unsecured, unsubordinated obligations issued or unconditionally guaranteed by the IBRD, IFC, or IADB.	AA-/Aa- or equivalent from ~~2 of 3~~one rating agency~~ies~~	10% of Portfolio	5 years

Attachment 2

CITY OF MOUNTAIN VIEW
MEMORANDUM

DATE: March 1, 2012

TO: Investment Review Committee

FROM: Patty J. Kong, Finance and Administrative Services Director

SUBJECT: MARCH 6, 2012—INVESTMENT REVIEW COMMITTEE—PROPOSED MODIFICATIONS TO THE INVESTMENT POLICY

PURPOSE

The purpose of this memorandum is to provide recommendations for modifications to the City's Investment Policy B-2 (Investment Policy) (see Attachment A) for the Investment Review Committee (IRC or Committee) to review and, if appropriate, to propose modifications to the City Council.

BACKGROUND AND ANALYSIS

At the last meeting of the IRC on October 4, 2011, the Committee suggested staff review alternatives to maximize the interest yield on the City's investment portfolio. In these days of a low-interest rate environment, staff discussed alternatives where higher yields could be obtained without adding excessive risk to the portfolio. As stated in Section 4.0 of the Investment Policy, the primary objectives, in priority order, for the City's investment activities shall be: Safety, Liquidity and Return on Investment. The policy also states the portfolio shall be designed with the objective of attaining a market rate of return.

The City currently does not actively manage its investments with frequent buy and sell transactions but generally holds securities to maturity. Staff attempts to "ladder" the portfolio by allocating investments so that a relatively equal portion of the portfolio matures in each fiscal year of the five-year maximum investment maturity permitted by the Investment Policy. This is done to minimize the risk of interest rate movements over time.

As previously purchased higher-yielding securities have been maturing over the past several years, the proceeds have been reinvested at lower market rates. Five years ago a five-year treasury was yielding over 5.0 percent. For the last few months the same five-year treasury is being purchased with a yield of less than 1.0 percent. The yield on the City's Investment Portfolio has declined from 5.74 in Fiscal Year 2000-01 to 2.76 for the fiscal year ending June 30, 2011 and has further declined to the current yield of 2.05 as of January 31, 2012. The revenue generated from the Investment Portfolio in Fiscal Year 2001-02 has gone from $12.6 million to $7.0 million for Fiscal Year 2010-11.

The Federal Reserve has maintained the rate on short-term funds close to zero at 0.25 percent since December 2008. Rates have remained low and are predicted to be maintained at historical low rates to the end of 2014. The depressed interest rates are having an impact on investment earnings to all funds including the General Operating Fund.

In reviewing options, two areas are believed to provide potential in earning higher yields without adding excessive risk as follows:

Medium-Term (Corporate) Notes—Currently, the Policy allows Corporate Notes, with fixed coupons meeting rating criteria of AA- by S&P or Aa- by Moody's, with a maximum maturity of two years and no more than 10.0 percent of the portfolio (see Section 10.1.5 of the Investment Policy).

Callable Securities—Currently, the Policy does not allow the purchase of securities with call provisions. This includes Securities of the U.S. Government (Treasuries), agencies of the U.S. Government (Agencies) or Medium-term (Corporate) Notes.

Previously, there has been up to 1.0 full-time equivalent position that was dedicated to managing the investment portfolio. However, due to budget reductions and the adoption of a more passive management style of the portfolio, staff dedicated to the management of the portfolio was eliminated. Staff does not currently have the expertise or the capacity to analyze and monitor corporate investments.

However, the City currently contracts with Chandler Asset Management (Chandler) for oversight and monitoring of the portfolio. The City has had a relationship with Chandler for over 15 years and Chandler assisted the City in drafting its current Investment Policy. Chandler was founded in 1988 and manages over $6.0 billion in assets for 104 clients. Chandler advises 64 public agency clients and has the expertise and resources to dedicate managing a portion of the City's portfolio in the area of Corporate Notes and Callable Securities (see Attachment B).

The Government Code allows for the investment of Corporate Notes with a maximum maturity of five years, rating of A and not to exceed 30.0 percent of the holdings in the portfolio. The City's policy is more restrictive and only allows a maturity of up to two years, rating of AA- and not to exceed 10.0 percent of the portfolio.

In order to maximize the incremental yield in investing in Corporate Securities, either the maturity, rating or percentage limit can be modified. Staff has analyzed the incremental difference in investing in two-year Corporate Notes compared to Treasuries and believes for the investment in Corporate Notes to be advantageous, the maturity of Corporate Notes needs to be extended from the current maximum of two years to five years. Therefore, staff recommends extending the maturity to a maximum of five years and potentially increasing the percentage limit. Staff does not recommend lowering the rating at this time as it is not believed necessary to obtain higher yields.

The spread on a five-year Corporate Note varies but is approximately 150 basis points. The portfolio fluctuates during the year and for the past 12 months has ranged from $250 million to $295 million. If 10.0 percent of the portfolio, based on $250 million, or $25 million were allowed to be invested in up to five-year Corporate Notes compared to Treasuries, it is estimated the City could net an additional $200,000 a year in investment earnings. The General Fund receives approximately 25.0 percent of total portfolio earnings and would receive approximately $50,000.

Callable Notes generally provide a slightly higher yield than their noncallable counterpart. The risk associated with Callable Securities is that a higher-yielding security is called and the proceeds would have to be reinvested at a lower-interest rate. Again, staff does not currently have the expertise or the capacity to evaluate and analyze Callable Securities, but it is believed that given that interest rates are not expected to significantly rise in the near future, benefit could be generated by investing in selected Callable Securities.

Staff surveyed other cities in Santa Clara County, as well as other comparable size agencies, to ascertain their policies for investing in Corporate Notes and Callable Securities (see Attachment C). All the cities that responded to the survey, except Morgan Hill, Gilroy and Saratoga, allow for the investment of Corporate Notes and those that allow investment in Corporate Notes allow maturity at the Government Code limit of five years. The majority has a limit of 10.0 percent but others allow for up to 30.0 percent. If the IRC wanted to increase the limit of Corporate Notes, staff would recommend starting with 10.0 percent and perhaps increasing the actual amount invested over time. For Callable Securities, all agencies surveyed allows for Callable Securities again with the limit of five years.

Another aspect of investing in Corporate Notes is Section 6.0 Social Responsibility. The provisions of this section of the Investment Policy limit the investment of Corporate Notes and are aimed in promoting social and environmental aspects. The provisions of this section of the Investment Policy would be followed.

SUMMARY/RECOMMENDATIONS

The primary objectives of the City's Investment Policy, in priority order, for the City's investment activities shall be: Safety, Liquidity and Return on Investment. The policy also states the portfolio shall be designed with the objective of attaining a market rate of return.

Staff has reviewed options that could maximize interest earnings without adding excessive risk and is recommending extending the maturity allowed for Corporate Notes to five years, increasing the limit of investments in Corporate Notes and allowing the investment in callable securities. Staff is also recommending Chandler manage the portion of the portfolio invested in Corporate Notes and callable securities due to limitation on staff resources. The net gain from these changes after management fees is estimated to be $200,000 annually.

Prepared by:

Patty J. Kong
Finance and Administrative
Services Director

Approved by:

Daniel H. Rich
City Manager

PJK/5/FIN
546-03-01-12M-E^

Attachments: A. Investment Policy B-2
B. Chandler Asset Management Proposal
C. Survey of Other Cities

CITY COUNCIL POLICY REVISED: November 15, 2011, Resolution No. 17658
Effective Date: December 16, 1968, Resolution No. 16393

SUBJECT: INVESTMENT POLICY NO: B-2

PURPOSE:

A. This Investment Policy is set forth by the City of Mountain View for the following purposes:

1. To establish a clear understanding for the Council, City management, responsible employees and third parties of the objectives, policies and guidelines for the investment of the City of Mountain View's idle and surplus funds.

2. To offer guidance to investment staff and any outside advisors on the investment of City funds.

3. To establish a basis for evaluating investment results.

B. The general purpose of this Investment Policy is to outline a philosophy and attitude which will guide the investment of City funds toward the desired investment goals. It is intended to be sufficiently specific to be meaningful, yet adequately flexible to be practical.

POLICY:

It is the policy of the City of Mountain View to invest public funds in a manner that will provide the highest investment return with maximum security while meeting the daily cash flow demands of the City and conforming to all State and local statutes governing the investment of public funds.

1.0 SCOPE:

This Investment Policy applies to all cash assets of the City of Mountain View. Cash held by the City shall be pooled in order to more effectively manage City cash resources. All pooled funds are accounted for in the City of Mountain View's Comprehensive Annual Financial Report and include:

1.1 Funds:

1.1.1 General Fund.

1.1.2 Special Revenue Funds.

1.1.3 Debt Service Funds.

1.1.4 Capital Project Funds.

1.1.5 Special Assessment District Funds.

1.1.6 Enterprise Funds.

1.1.7 Internal Service Funds.

1.1.8 Trust and Agency Funds.

Excluded funds are those held with the fiscal agent. They have their own specific "permitted investments" section in the bond covenants.

1.2 Funds for major capital projects or for purposes of accumulating short-term funds for a lump-sum payment (e.g., the City's Public Employees' Retirement System (PERS) annual prepayment, etc.) in excess of $5 million as selected by the Finance and Administrative Services Director and approved by the City Manager shall be excluded from the portfolio for purposes of Section 9.0 of the policy.

2.0 PRUDENCE:

Persons authorized to make investment decisions on behalf of the City investing public funds pursuant to this policy 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 City, 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 City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

3.0 TERMS:

3.1 Market Cycle. A market cycle is defined as a period of time which includes a minimum of two (2) consecutive quarters of falling interest rates followed by a minimum of two (2) consecutive quarters of rising interest rates.

3.2 Economic Cycle. A period of time which includes a minimum of two (2) consecutive quarters of growth in GDP, and a minimum of two (2) consecutive quarters of decline in GDP.

3.3 Time-Weighted Total Rate of Return. A measurement of portfolio return which eliminates the effect of the timing of contributions to and withdrawals from the fund.

3.4 Benchmark. A segment of the securities market with characteristics similar to the subject portfolio. It is used to compare performance to the performance of the appropriate segment of the market. The Benchmark for the City's portfolio shall be the blended Merrill Lynch Index of three-month Treasuries, six-month Treasuries and one- to five-year Government securities or an equivalent index.

3.5 Modified Duration. A measure of the responsiveness of a bond's or a portfolio's change in market value for a given change in the general level of yields. Modified duration is equal to duration divided by (one plus market yield/number of coupon payments per year).

4.0 OBJECTIVES:

The primary objectives, in priority order, of the City of Mountain View's investment activities shall be:

4.1 Safety. Safety of principal is the foremost objective of the investment program. Investments of the City of Mountain View shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by limiting investment risk in the portfolio. Additionally, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

4.2 Liquidity. The City's investment portfolio shall be structured in a manner which will provide funds from maturing securities and interest payments to meet anticipated cash flow demands.

Short-term funds, available in seven (7) days or less, shall comprise at least five percent (5%) of the portfolio. If these funds are drawn for cash flow purposes, the five percent (5%) shall be reestablished as soon as possible.

4.3 Return on Investment. The City of Mountain View's investment portfolio shall be designed with the objective of attaining a market rate of return throughout market and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. See Section 5.0 of this Investment Policy for more specific information regarding return objectives.

5.0 INVESTMENT PERFORMANCE OBJECTIVE:

The investment performance objective for the City of Mountain View's portfolio shall be to earn a time-weighted total rate of return over a market cycle which equals the time-weighted total rate of return on the Benchmark index, as defined in Section 9.0.

6.0 SOCIAL RESPONSIBILITY

In addition to the objectives in Sections 4.0 and 5.0 regarding safety, liquidity, return on investment and portfolio performance, investment of City funds should be guided by the following socially responsible investment provisions when investing in securities of nongovernmental entities. These provisions pertain to investments in banker's acceptances, medium-term corporate notes and certificates of deposit. All other permitted investments as defined in Section 10.0 of this policy are excluded.

6.1 Social and Environmental Concerns

6.1.1 Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices.

6.1.2 Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation.

6.2 Community Investments

6.2.1 Investments are encouraged in entities that promote community economic development.

6.2.2 Investments are encouraged in financial institutions that have a demonstrated involvement in the development or rehabilitation of low-income affordable housing.

6.2.3 No investment is to be made in securities of financial institutions that do not have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding.

6.3 Prohibited Investments

6.3.1 No investment is to be made in a company that manufactures cigarettes as identified by the Investors Responsibility Research Center.

6.3.2 No investment is to be made in entities that manufacture firearms as identified by the Investors Responsibility Research Center.

6.4 Implementation

6.4.1 Implementation of Section 6.1. Oversight of corporate compliance with laws and regulations governing environmental practices, labor standards and civil rights are the responsibility of State and Federal agencies.

1. The City Council will consider complaints or concerns regarding any firm eligible to receive a City investment covered by these provisions and determine whether the firm(s) should not be considered for City investment. Upon majority vote of the City Council determining a firm(s) should not be eligible for a City investment, the firm(s) will be placed on a list maintained by staff.

2. Staff shall refer to this list prior to placing investments covered by these provisions and assure no such investments are made.

3. If the City is holding an investment in a firm that is subsequently determined by Council to be ineligible for City investment, staff shall divest of the security as quickly as practical (taking into consideration market conditions) but no later than 180 days from the date of the Council determination.

4. Staff is not required to determine the compliance of a potential investment with the objectives of this provision prior to placing an investment other than checking the list of ineligible firms in Item 2 above.

6.4.2 Implementation of Section 6.2. Staff is required to ascertain the Federal government's CRA compliance rating of a financial institution and assure it meets the policy standard prior to placing an investment covered by these provisions.

6.4.3 Implementation of Section 6.3. Prior to making an applicable investment, staff is required to refer to information obtained from the Investor's Responsibility Research Center identifying cigarette and firearm manufacturers. No additional research is required to comply with these provisions.

7.0 STRUCTURE AND RESPONSIBILITY:

This section of the Investment Policy defines the overall structure of the investment management program.

7.1 Authority to manage the City of Mountain View's investment program is derived from the Government Code of California, Section 53600, *et seq.*, and the City Charter.

7.1.1 Responsibilities of the City Council. The City Council shall consider and adopt a written Investment Policy in accordance with Section 15 of this policy. As provided in this policy, the Council shall receive and review monthly Investment Reports.

7.1.2 Responsibilities of the City Manager. The City Manager is responsible for directing and supervising the Finance and Administrative Services Director. He/she is also responsible to keep the City Council fully advised of the investment portfolio and as to the financial condition of the City.

7.1.3 Responsibilities of the Finance and Administrative Services Director. The Finance and Administrative Services Director is appointed by the City Manager and is subject to his/her direction and supervision. The Finance and Administrative Services Director is charged with responsibility for the conduct of all Finance and Administrative Services Department functions, including the custody and investment of City funds and the development of procedures to implement this Investment Policy.

Under general direction of the City Manager, the Finance and Administrative Services Director shall have responsibility for all decisions and activities of the City's investment program. The Finance and Administrative Services Director shall establish procedures for the operation of the investment program consistent with the Investment Policy.

Procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may commit to, or place, an investment except as provided under the terms of this policy and the procedures established by the Finance and Administrative Services Director.

The Finance and Administrative Services Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Except funds placed for purposes of overnight investments, which shall consist of investment placed for up to five (5) days, excluding holidays and weekends, or deposits and withdrawals from the State-run Local Agency Investment Fund (LAIF), the Finance and Administrative Services Director, or written designee in his absence, shall approve, in writing, all investment purchases and sales prior to the settlement of the transaction.

7.1.4 Responsibilities of the Investment Officer. The Investment Officer is appointed by the Finance and Administrative Services Director and is subject to his/her direction and supervision. The Investment Officer is charged with the responsibility for and conduct of the day-to-day management of the investment program.

8.0 AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS:

The Investment Officer will maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by State law. In addition, a list will also be maintained of approved security broker/dealers selected by creditworthiness. These may include primary dealers or regional dealers. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Investment Officer with the following:

1. Audited financial statements for the institution's three most recent fiscal years.

2. Completed financial institution or broker/dealer questionnaire.

3. A statement certifying that they have reviewed the City's Investment Policy and that all securities offered to the City shall comply fully with all provisions of the California Government Code and with this Investment Policy.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City. An annual review of the financial condition of qualified bidders will be conducted by the Investment Officer.

9.0 EXPOSURE TO MARKET RISK:

9.1 The target modified duration of the portfolio shall be equal to the modified duration of the following blend of Merrill Lynch indices: 10 percent three-month Treasuries, 10 percent six-month Treasuries, 80 percent one- to five-year Government (the Benchmark).

9.2 Portfolio duration shall be rebalanced within 3 percent at least quarterly with the intent of achieving an average portfolio duration over market cycles approximately equal to the target modified duration described in Paragraph 9.1.

9.3 Portfolio duration may not vary from the target modified duration by more than ±15 percent at any time.

9.4 The maximum stated final maturity of individual securities in the portfolio may not exceed five (5) years. Some categories of investments are further limited as described in Section 10.0 below.

10.0 AUTHORIZED AND SUITABLE INVESTMENTS:

All investments shall be made in accordance with Sections 53600, *et seq.*, of the Government Code of California and as described in the "Permitted Investments" section of this Investment Policy and as summarized in Exhibit "A."

10.1 PERMITTED INVESTMENTS under this policy shall include:

10.1.1 Securities issued by the U.S. Government or senior securities of an agency of the U.S. Government and fully guaranteed as to payment by the U.S. Government or agency of the U.S. Government. Permitted securities shall have fixed coupons, fixed maturity dates and no call provisions. Investment in mortgage-backed bonds and CMOs is not governed by this Section 10.1.1 even if such bonds are issued by agencies of the U.S. Government. Investment in CMOs is prohibited. (See Section 10.1.2 for conditions of purchase of mortgage-backed securities.) Investments in securities issued by the U.S. Government shall be maintained at a minimum of 25 percent of the total portfolio. Investment in senior securities issued by agencies of the U.S. Government shall be limited to a maximum of 50 percent of the total portfolio and 25 percent of the total portfolio in securities issued by any one Federal agency.

10.1.1.1 Securities fully guaranteed by the U.S. Government such as those under the Temporary Liquidity Guarantee Program (TLGP) shall be considered permitted investments under the same guidelines as Section 10.1.1 of this policy.

10.1.2 Mortgage-backed securities with a fixed coupon issued by an agency of the U.S. Government, provided that the stated final maturity of such securities does not exceed five (5) years from the date of purchase. Investment in securities permitted under this section shall be limited to a maximum of 20 percent of the total portfolio.

10.1.3 Commercial paper of "prime" quality rated a minimum of P-1 by Moody's Investor Services (Moody's) or A-1 by Standard & Poor's, Inc. (S&P) provided that: (a) the maturity does not exceed 180 days from the date of purchase; (b) the issuer is a corporation organized and operating in the United States with assets in excess of $500 million; and (c) no more than 15 percent of the City's portfolio is invested in commercial paper.

10.1.4 Banker's acceptances of "prime" quality issued by institutions the short-term obligations of which are rated a minimum of P1 by Moody's or A1 by S&P provided that: (a) the acceptances are eligible for purchase by the Federal Reserve System; (b) the maturity does not exceed 180 days; and (c) no more than 20 percent of the City's total portfolio may be invested in banker's acceptances.

10.1.5 Medium-term (or corporate) notes with fixed coupons, fixed maturity and no call provisions 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, the long-term obligations of which are rated at least "AA-" by S&P or "Aa-" by Moody's. No more than 10 percent of the City's portfolio may be invested in eligible medium-term or corporate notes. The maximum maturity of medium-term corporate notes is two (2) years. Investments in medium-term notes issued by agencies of the Federal Government are governed by Section 10.1.1 of this policy.

10.1.6 Mutual funds invested in U.S. Government securities which strive to maintain a price of $1.00 per share ("Government money market funds") with a minimum of $500 million in total portfolio value and a rating of Aaa by Moody's and AAA by S&P. Investment in such funds shall not exceed ten percent (10%) of the City's total portfolio.

10.1.7 Certificates of deposit (CDs) with fixed coupons and fixed maturity date which may not exceed two (2) years.

10.1.7.1 Insured deposits, time deposits not exceeding the Federal Deposit Insurance Corporation's (FDIC) deposit insurance limit, shall be permitted only in those financial institutions which are active members of the FDIC. Total insured deposits may not exceed ten percent (10%) of the City's total portfolio.

10.1.7.2 Secured (collateralized) time deposits shall be permitted only in those financial institutions meeting the following criteria: (a) in good standing with the California State Collateral Pool; and (b) having a net operating profit in the two (2) most recently completed years; and (c) having long-term debt currently rated A- or higher by S&P or A3 or higher by Moody's, or having short-term debt rated at least A-1 by S&P or P-1 by Moody's. Total secured time deposits may not exceed ten percent (10%) of the City's total portfolio.

10.1.7.3 Unsecured (negotiable) deposits (NCDs) shall be permitted only in those financial institutions meeting the criteria listed in Subsection 10.1.7.2 and, in addition, having total assets in excess of $1 billion. Total NCDs may not exceed ten percent (10%) of the City's total portfolio.

10.1.8 Local Agency Investment Funds (LAIF) administered by the State Treasurer's Office. No more than 20 percent of the portfolio may be invested in LAIF.

10.1.9 Passbook accounts maintained solely to provide for ongoing operational needs shall be subject to the requirements of this policy.

10.1.10 Municipal bonds issued by the City of Mountain View or any component unit of the City at limits and maturity as approved by the City Council.

10.1.11 Legal settlements. Any noncash financial instrument, promissory note or other form of indebtedness acquired by the City as part of a legal settlement.

10.2 Prohibited investments. Investments not specifically delineated in Section 10.1 are prohibited. Prohibited investments include, but are not limited to:

10.2.1 Collateralized mortgage obligations, even if issued by agencies of the U.S. Government.

10.2.2 Repurchase agreements and reverse repurchase agreements.

10.2.3 Futures and options.

10.3 Securities may be sold at a loss in order to improve the risk or return characteristics of the portfolio, to prevent anticipated further erosion of principal or when trading for securities that result in an expected net economic gain to the City.

If securities owned by the City of Mountain View are downgraded by both Moody's and S&P to a level below the quality required by this Investment Policy, it shall be the City's policy to sell such securities promptly.

11.0 DIVERSIFICATION REQUIREMENTS:

11.1 With the exception of securities issued by the U.S. Government and its agencies, no more than 5 percent of the portfolio may be invested in securities of any one issuer.

11.2 A minimum of 25 percent of the portfolio will be invested in securities issued by the U.S. Government.

11.3 No more than 50 percent of the portfolio may be invested in securities issued by agencies of the U.S. Government.

11.4 No more than 25 percent of the portfolio may be invested in securities issued by any single agency of the U.S. Government.

11.5 No individual holding shall constitute more than 5 percent of the total debt outstanding of any issuer.

11.6 No more than 20 percent of the portfolio may be invested in banker's acceptances.

11.7 No more than 15 percent of the portfolio may be invested in commercial paper.

11.8 No more than 10 percent of the portfolio may be invested in medium-term (corporate) notes.

11.9 No more than 10 percent of the portfolio may be invested in government money market funds.

11.10 No more than 10 percent of the portfolio may be invested in insured certificates of deposit.

11.11 No more than 10 percent of the portfolio may be invested in secured time deposits.

11.12 No more than 10 percent of the portfolio may be invested in unsecured (negotiable) deposits.

11.13 The cost value of the security will be used when calculating diversity compliance.

12.0 SAFEKEEPING AND CUSTODY:

All securities transactions entered into by the City of Mountain View shall be conducted on a delivery-versus-payment (DVP) basis. All securities will be held by a third-party custodian, which shall be a bank trust department, designated by the Finance and Administrative Services Director and evidenced by monthly custodial statements.

13.0 INTERNAL CONTROL:

The Finance and Administrative Services Director shall establish and maintain a system of appropriate internal controls to ensure compliance with policies and procedures. The controls are designed to prevent losses of public funds arising from fraud, error or imprudent actions by employees and officers of the City. The most important controls are: separation of duties, separation of transaction authority from accounting and bookkeeping, third-party custody of securities, delegation of authority, written confirmation of telephone transactions, documentation of transactions and strategies, and periodic review of controls.

14.0 REPORTING AND REVIEWS:

14.1 Monthly. Monthly investment reports shall be submitted by the Finance and Administrative Services Director to the City Council and the City Manager. These reports shall disclose the following information about the risk characteristics of the City's portfolio:

14.1.1 Cost and accurate and complete market value of the portfolio (market value includes accrued interest).

14.1.2 Modified duration of the portfolio compared to Benchmark.

14.1.3 Dollar change in value of the portfolio for a 1 percent change in interest rates.

14.1.4 A concise narrative, including pertinent information regarding exposure to investment risk, exceptions to investment policy (if any) and market or economic trends which may impact the City's investments.

14.1.5 Percent of portfolio maturing within one (1) year.

14.1.6 Average portfolio credit quality.

14.1.7 Percent of portfolio with credit ratings below "AA/Aa," and a description of such securities.

14.1.8 Listing of any transactions or holdings which do not comply with this policy or with the California Government Code.

14.1.9 Time-weighted total rate of return for the portfolio for the prior 3 months, 12 months, and for the year-to-date, compared to the Benchmark returns for the same periods.

14.2 Quarterly. On a quarterly basis, the Finance and Administrative Services Director and the City Manager shall meet with an independent, external investment adviser. The adviser will review compliance with policies and procedures; calculate the market value of the City's holdings; report on overall portfolio risk exposure and investment results; and make recommendations, if needed, regarding investment strategy, risk or any aspect of the investment program.

The Finance and Administrative Services Director and the investment adviser shall prepare a report to City Council which summarizes the quarterly meeting and includes any pertinent findings or recommendations of the external adviser.

14.3 Annual. An Investment Review Committee shall be established by the City Council. The Investment Review Committee shall include members of the City Council Finance Committee and two (2) public members appointed by the City Council who have expertise in the area of fixed income investments. The Investment Review Committee shall meet on an annual basis with the Finance and Administrative Services Director, the City Manager and the external adviser to review the portfolio. The Investment Review Committee shall report its findings and recommendations to the City Council.

15.0 INVESTMENT POLICY ADOPTION:

The City of Mountain View's Investment Policy shall be adopted by resolution of the City Council of the City of Mountain View. The policy shall be reviewed each fiscal year by the Council Finance Committee, and any modifications made thereto must be approved by the City Council at a public meeting.

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Exhibit A

ELIGIBLE INVESTMENTS AND LIMITS CRITERIA

With the exception of securities issued by the U.S. Government and its agencies, no more than 5 percent of the portfolio may be invested in securities of any one issuer.

No individual holding shall constitute more than 5 percent of the total debt outstanding of any issuer.

Type	Conditions	Rating	Limits	Maturity
U.S. Treasury Bills, Notes and Bonds	Fixed coupons, fixed maturity dates, no call provisions, no CMOs.	N/A	25% Minimum	5 Years
U.S. Government Agency Issues (e.g., F.N.M.A., G.N.M.A., etc.)	Fixed coupons, fixed maturity dates, no call provisions, no CMOs.	N/A	Total 50% of Portfolio in U.S. government agencies. 25% per Agency	5 Years
Mortgage-Backed Securities	Issued by an agency of the U.S. government.	N/A	Total 20% of Portfolio in U.S. government agencies. 25% per Agency	5 Years
Commercial Paper	Organized and operated in the U.S. with assets in excess of $500 million.	A1/P1	15% of Portfolio	180 Days
Banker's Acceptances	Eligible for purchase by the Federal Reserve System.	A1/P1	20% of Portfolio	180 Days
Medium-Term Corporate Notes	Fixed coupons, fixed maturity, no call provisions.	AA/Aa	10% of Portfolio	2 Years
Local Agency Investment Fund (LAIF)	N/A	N/A	20% of Portfolio	On Demand
Certificates of Deposit	Fixed coupons and fixed maturity date.	FDIC insured not exceeding FDIC's deposit insurance limit; secured—see 9.1.7.2; unsecured—see 9.1.7.2	10% of Portfolio for each type	2 Years
Mutual Funds	Invested in U.S. government securities; strive for $1 per share price. Minimum $500 million in total portfolio value.	AAA/Aaa	10% of Portfolio	N/A
Municipal Bonds	City of Mountain View or a component unit of the City of Mountain View.	N/A	As approved by Council.	As approved by Council.

Attachment B

CHANDLER ASSET MANAGEMENT

Chandler Asset Management

Professional Investment Management
for
Public Funds

Prepared for

Mountain View, California

November 2011

Chandler Asset Management and Mountain View

Chandler Asset Management ("Chandler") has provided the City of Mountain View with certain consulting services in the past. Chandler helped the City draft its current Investment Policy and provides ongoing reporting of the City's investment portfolio. The purpose of this presentation is to explore adding investment management to the relationship. Specifically, Chandler can manage a part of the City's investment portfolio in U.S. corporate notes and a part in callable agencies. These are areas in which we have substantial expertise, and which, we believe, could add significant value to the City's portfolio over time. To that end, we would like to provide you with a detailed background of the firm and to familiarize you with Chandler's investment process and full resources.

Chandler Asset Management

Chandler, founded in 1988, is registered with the Securities and Exchange Commission as an investment adviser. For over 23 years, Chandler has provided investment management services to public agencies, foundations and endowments, not-for-profit organizations, and corporations.

Chandler is a California corporation and a certified woman-owned business enterprise. The key employees of Chandler are the owners of the firm: an ownership structure that contributes to our ability to attract and retain the highest quality investment professionals.

We are headquartered in San Diego, with additional offices in Pleasanton, California; Denver, Colorado; and Chicago, Illinois.

Qualifications of Chandler Asset Management

What truly distinguishes Chandler is our ability and willingness to provide custom-tailored investment management and robust client service targeted to each client's specific objectives and unique circumstances. We will listen carefully to your needs and wishes; we will learn about Mountain View; and only then will we propose a solution we expect to be optimal for your investment program. We act as a true partner with our clients and as a provider of solutions—not just a money manager. Our solutions for the City of Mountain View will be designed to provide optimal, achievable results, not only in terms of investment performance, but also in dedicated client service.

The experience and training of Chandler team members provide a depth of knowledge and resources available to our client-partners. Applying the tools available through current technology to our disciplined, repeatable investment process, team members develop and execute custom-tailored investment solutions. The team environment in which we manage our clients' investment programs provides efficient, effective integration of all aspects of the investment program—portfolio management, policy review, compliance, operations, accounting and reporting, and timely service. Each member of our team will know you and your portfolio. We are committed to partnership with each client

Chandler manages approximately $6 billion in assets for 104 clients; we currently advise 64 public agency clients with assets totaling $4.6 billion.

Scope of Services
The full scope of Chandler services, detailed below, is provided in the context of direct management of client portfolios.

- **Portfolio Management.** Team members use their years of investment experience to structure portfolios in compliance with all governing statutes, resolutions, policies, and directives and that achieve our clients' objectives. Our investment discipline generates competitive results by:
    - effectively managing portfolio risk
    - rebalancing the portfolio as needed to maintain the appropriate risk profile
    - employing a proprietary, quantitatively based credit analysis process
    - using our proprietary, quantitative *Horizon Analysis Model* (the *Model*) to determine the optimal portfolio structure for the current interest rate and yield curve environment
- **Investment Policy Review.** Our partnership with each of our clients begins with a thorough review of their investment policy and existing practices. We then review the policy at least annually and recommend revisions when necessary. Chandler helped the City draft its current Investment Policy.
- **Competitive Transaction Executions, Settlement, and Documentation.** We execute all investments on a competitive basis, and document the quotes received. All trades are settled at the client's custodian bank using "delivery-vs.-payment" procedures.
- **Portfolio Accounting and Reporting**. Chandler clients receive a monthly report that includes a management summary of portfolio characteristics, policy compliance and performance, as well as full accounting detail. All reports are available no later than the third business day following month-end.
- **Online Access.** Clients have timely online access to portfolio transactions and holdings.
- **Compliance Reporting.** Included in the monthly report is a detailed report of compliance with policy.
- **Client Education.** Team members serve as faculty members for national and regional associations. Our educational presentations are customized for staff, management and elected officials.
- **Communication.** We keep our clients, their staff and appropriate oversight boards or committees fully informed of investment strategies, market conditions, and developments that are relevant to their investment programs using the most appropriate means. We meet with clients on a quarterly basis, and our investment professionals are available by phone during our extended business hours.

The following sections describe the firm's investment management process and our research capabilities.

Portfolio Management Methodology

Chandler's Investment Philosophy
We believe that effective risk management enhances the potential for higher total returns. Our goal is to meet your investment objectives for safety and liquidity while generating return through consistent, incremental outperformance of your benchmark.

At the beginning of our relationship, we will assist you in selecting a benchmark with a risk profile (modified duration and credit exposure) appropriate for you. Once you have chosen the benchmark, our team will structure your portfolio with a risk profile similar to that of your benchmark and will maintain the proper risk profile over time through periodic rebalancing.

Chandler's Disciplined Investment Process
The firm employs a rigorous, quantitatively based discipline, comprised of three stages—portfolio structure, security selection and periodic rebalancing.

Portfolio Structure
A proprietary *Horizon Analysis Model* is the quantitative foundation for Chandler's portfolio construction process. The *Model* enables the portfolio management team to integrate its research into the portfolio management process in a quantitative, disciplined, and repeatable way.

Inputs to the *Model* include: (1) current yields on Treasury, agency and corporate securities; (2) specific client constraints, such as maturity restrictions and maximum sector exposure; and (3) nine different forecasted interest rate scenarios that are at a six-month horizon date.

Through an iterative process, the *Model* generates the "optimal portfolio structure" (duration, maturity distribution and sector allocation), which is the portfolio that achieves a return greater than the benchmark in each of the nine scenarios. That is, the *Model* generates a portfolio structure that we expect will outperform the portfolio's benchmark over a wide range of possible future interest rate movements.

The portfolio management team then evaluates the optimal portfolio structure. The team makes any necessary changes and begins the construction of the optimal portfolio. This combination of a rigorous quantitative structure and experienced qualitative oversight is a hallmark of all Chandler's portfolio management activities.

Security Selection
The security selection decision is separate from the portfolio structuring process.

Chandler's investment team employs a proprietary credit analysis process designed for identification of stable and improving credits as well as early detection of weak and deteriorating credits. The process includes both qualitative and quantitative aspects.

Credit Analyst Shelly Henbest is responsible for fundamental macroeconomic, industry-wide, and issuer-specific analysis. She prepares research reports and recommendations for review and action by the firm's Credit Committee. Committee members conduct independent credit research and meet once per week to develop a disciplined and actionable credit strategy. The decision process on individual issuers is bifurcated. If Committee members unanimously approve an issuer, it is immediately added to the Approved Issuer List. If any member of the Committee expresses a concern about the issuer then further evaluation ensues. If the issuer passes additional screening, it is added to the Approved Issuer List; if not, it may be followed for later approval. Ultimate approval of credits is the responsibility of Chief Investment Officer Martin Cassell.

Portfolio Rebalancing
With the passage of time, portfolio characteristics tend to drift away from the desired structure. For that reason, the team reruns the *Horizon Analysis Model* monthly, and rebalances as market conditions and portfolio characteristics change.

Research Capabilities

Like all Chandler clients, Mountain View and its staff would benefit from all the processes and research we use in managing all Chandler client portfolios and that are described below.

Investment Research
The ongoing development of sophisticated tools for investment research is a high priority at Chandler Asset Management. We devote considerable resources to enhancing our own in-house capabilities and to evaluating research from outside sources to incorporate into our own proprietary processes.

Current resources include:

Bloomberg, LP
We use the Bloomberg system to monitor market activity and security prices in real time. Bloomberg's extensive database is an important resource in our fundamental evaluation of credit quality and relative value.

Charles River Development Investment Management System (CRD)
In 2008, the firm implemented CRD to automate and streamline our investment management operations. Our clients benefit from extensive portfolio management tools, efficient trade order management, and real-time pre-trade compliance testing and monitoring on a single integrated platform.

Price Discovery and Electronic Trading
We use TradeWeb® and other electronic trading platforms for price discovery, competitive bidding, and trade execution and documentation.

Economic Research
The independent firm of Stone & McCarthy Research Associates (SMRA) provides us with a broad macroeconomic analysis, in-depth market commentary, and sector analysis, delivered over the internet. SMRA's examination of current economic conditions and projections of future economic scenarios is a major tool that we use in developing our own interest rate forecasts.

Fee Information

Chandler Asset Management is pleased to offer our services in accordance with the following fee schedule:

Chandler Asset Management
Fee Schedule

Assets Under Management	Annual Asset Management Fee
First $20 million	0.10 of 1% (10 basis points)
Next $40 million	0.08 of 1% (8 basis points)
Assets in excess of $60 million	0.06 of 1% (6 basis points)

For a portfolio of $20 million, the fee would be $20,000 or 0.10 of 1% (10 basis points). Fees are billed monthly in arrears based on the average balance of assets under management. The fee schedule does not include charges that the City will incur for third party custodial services. Chandler Asset Management does not assume custody of client assets. Custody of Mountain View assets would continue to be with your third party bank custodian.

Public Agency References[1]
As of September 30, 2011

Client	Contact Information	Managed Since	Assets Under Management (Millions)
City of Brea One Civic Center Circle Brea, CA 92821	Mr. William Gallardo Finance Director (p) (714) 671-4418 (f) (714) 671-4484 billga@ci.brea.ca.us	1996	$96.1
City of Corona 400 South Vicentia Avenue Corona, CA 92882	Ms. Debra Foster Finance Director (p) (951) 736-2315 (f) (951) 817-5770 debra.foster@ci.corona.ca.us	2006	$197.1
City of Moreno Valley 14177 Frederick Street Moreno Valley, CA 92552	Mr. Richard Teichert Director of Administrative Services (p) (951) 413-3024 (f) (951) 653-5886 richardt@moval.org	2010	$180.6

[1] References selected are based on similar sized clients. It is not known whether the listed clients approve or disapprove of Chandler Asset Management and the advisory services provided.

Rancho California Water District 42135 Winchester Road Temecula, CA 92589	Mr. Jeff Armstrong Chief Financial Officer (p) (951) 296-6928 (f) (951) 296-6862 armstrongj@ranchowater.com	1994	$323.3
Western Municipal Water District 450 Allesandro Boulevard Riverside, CA 92517	Mr. Rod LeMond Chief Financial Officer (p) (951) 571-7100 (f) (951) 571-0590 rlemond@wmwd.com	2001	$103.3

As we have stressed throughout this presentation, what truly distinguishes Chandler is our ability and willingness to provide custom-tailored investment management and robust client service targeted to each client's specific objectives and unique circumstances. Our solution for the City of Mountain View will be designed to provide optimal, achievable results, not only in terms of investment performance, but also in dedicated client service.

For additional information, please contact either Kay Chandler or Bill Dennehy at (858) 546-3737.

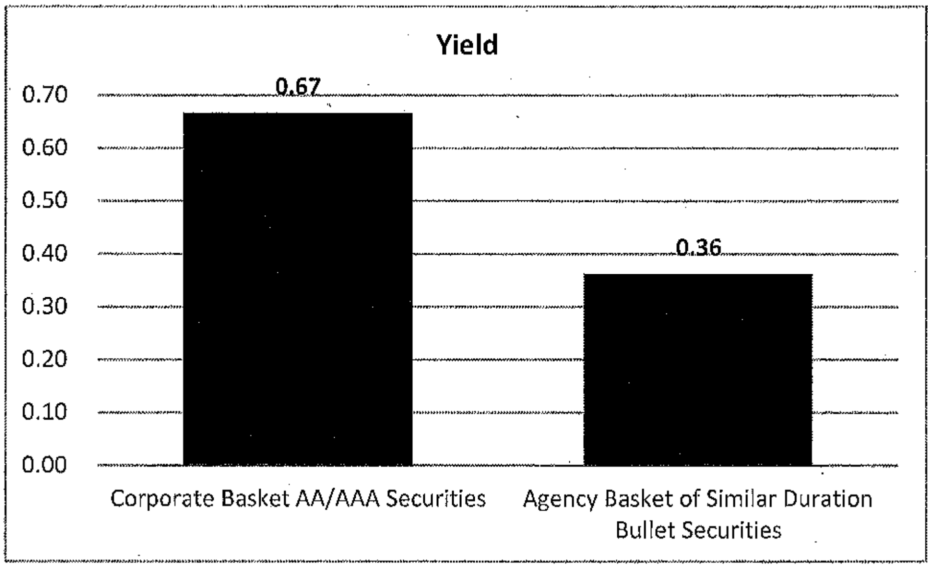
CHANDLER
ASSET
MANAGEMENT

Mountain View Corporate Note Proposal

The investment policy as written is materially more conservative than California code for corporate medium term notes.

Medium Term Note Summary	Mountain View	California Code
Maximum maturity	2 years	5 years
Minimum credit quality	AA	A
Max percentage of total portfolio	10%	30%

A diversified portfolio of AA/AAA rated two year maximum corporate securities can add value to a portfolio on a risk adjusted basis compared to US Agency alternatives. Based on corporate notes that meet Chandler's internal qualitative and quantitative standards for AA/AAA accounts and the availability of such names with maturities in 2013 we could build a portfolio of 8 names diversified across several industries, equally weighted, with a yield of 0.67%. A similar duration Agency portfolio consisting of equal weighted exposure to a Fannie Mae, Freddie Mac, and Federal Home Loan Bank securities would have a yield of 0.36%.



Source: Bank of America / Merrill Lynch Index constituents as of 10/31/2011

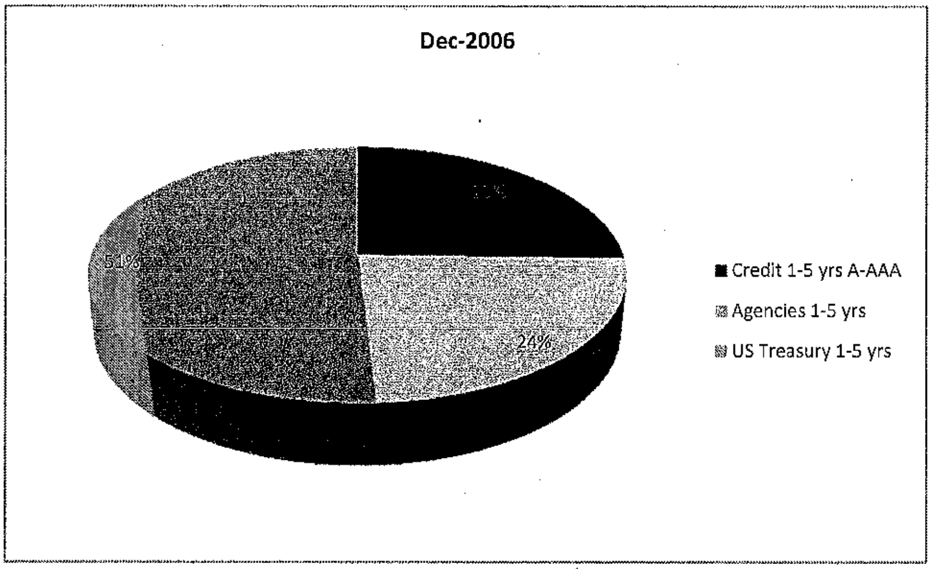
- 8 corporate names diversified across 8 distinct sub-sectors in the industrial and financial segments.
- Each individual position less than 1.50% of the total portfolio (assumes a 10% allocation to corporate securities).
- Corporate component has a duration of 1.68 (maturity range 1/15/2013 to 10/25/2013).
- Agency component has a duration of 1.70 (maturity range 7/15/2013 to 8/14/2013).

The high quality allocation to multiple AA/AAA rated credit securities could add an additional 0.31% of yield for this portion of the portfolio. Market dynamics, issuance trends, and demand in various segments of the credit curve are not static thus the opportunity set for Chandler to add value will be continuously changing. The portfolio management team at Chandler currently utilizes tools to actively forecast and monitor the securities that will be rolling down into this maturity segment. The ability to continuously evaluate relative valuations across broad sectors of the fixed income universe to uncover strategic investment opportunities on behalf of our clients is one of the differentiating advantages of Chandler Asset Management.

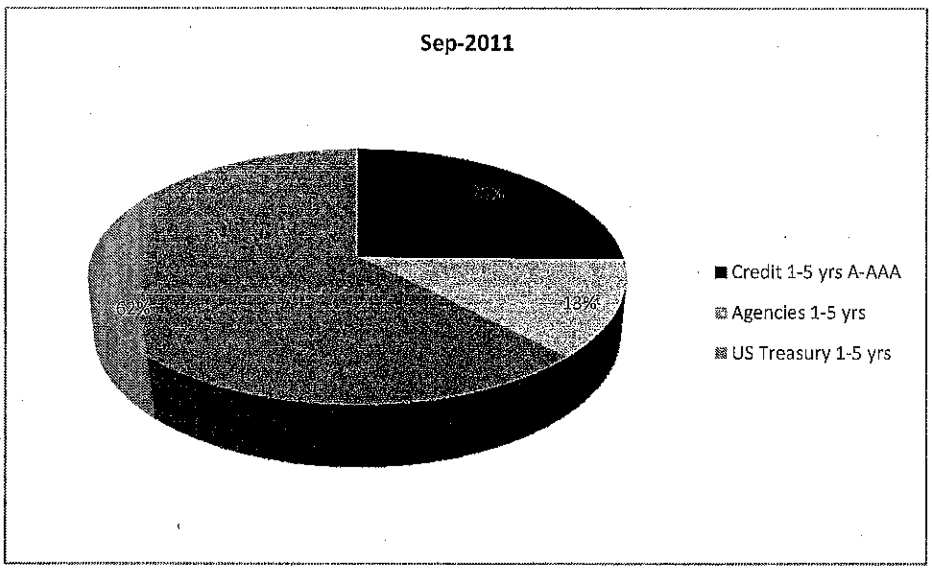
Market Dynamics Evolving – Opportunity set in the Agency Sector Contracting

Expand Credit Quality Minimum to be Consistent with California Code

The universe of agency securities relative to treasury and credit securities is shrinking. The percentage of the overall market issuance has increased in US Treasuries, held relatively steady in higher rated US Credit Securities, but declined in US Agency securities, as illustrated in the two pie charts below. Based on the uncertain future of both Fannie Mae and Freddie Mac, which remain under conservatorship by the US Government, we are encouraging clients to consider utilizing the entire investment opportunity set when managing portfolios.



Source: Bank of America / Merrill Lynch Index Data



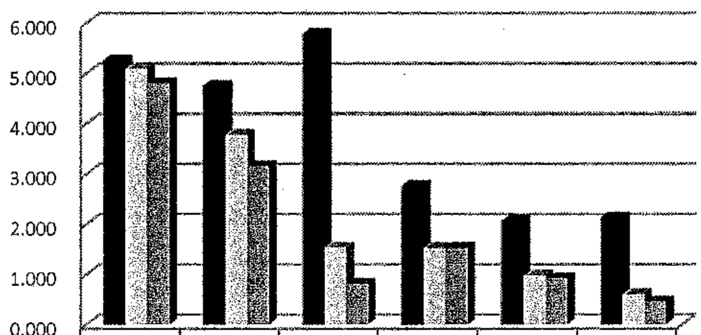
Source: Bank of America / Merrill Lynch Index Data

Expand the Minimum Maturity to be Consistent with California Code

The two year portion of the credit market does not provide as many opportunities to add value as a typical local agency mandate with the ability to invest out to five years. Traditionally there is very low turnover for shorter maturity mandates thus the ability to purchase corporate notes in the 2 year and shorter maturity range at an attractive price can be challenging. The new issue market is much more active in the five and ten year maturity points, less so in three years, and infrequent in the two year part of the curve. Therefore, as an investor in the 2 year sector, you are almost always forced to transact in the secondary market and do not have the opportunity to take advantage of the primary (new issue) market where market liquidity is high.

The overall credit sector of the market offers a compelling spread enhancement for portfolios able to invest across the maturity and credit quality spectrum allowed by California code. Prior to the financial crisis in December 2006 the spread differential between the Agency and Credit sector was compressed. In December 2008, at the height of the financial crisis, most market participants were concerned with return *of* principal, not return *on* principal. In the current environment, particularly considering the vast improvement in the safety and soundness of corporate balance sheets, the spread pick up in Credit securities relative to Agency securities is compelling in Chandler's opinion.

Historical Yields of Sector Components



	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	09/30/11
Credit 1-5 yrs A-AAA	5.259	4.757	5.784	2.757	2.071	2.130
Agencies 1-5 yrs	5.087	3.785	1.544	1.533	0.975	0.608
US Treasury 1-5 yrs	4.803	3.158	0.814	1.531	0.929	0.461

Source: Bank of America / Merrill Lynch Index Data

While extending the duration or maturity of a sector or portfolio as a whole does add some additional risk, we believe that the diversification and added return available in the credit sector of the market as permitted by California code is compelling. Please let us know how we can assist in better educating your team on the benefits of adding corporate securities to the full extent permitted by California code.

Fixed income investments are subject to interest, credit, and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates. For additional disclosures about Chandler Asset Management, our strategies and the risks associated with fixed income investing, please see Part 2A of our Form ADV located at www.chandlerasset.com or www.adviserinfo.sec.gov.

CHANDLER
ASSET
MANAGEMENT

Mountain View Callable Agency Proposal

The investment policy as written prohibits callable securities.

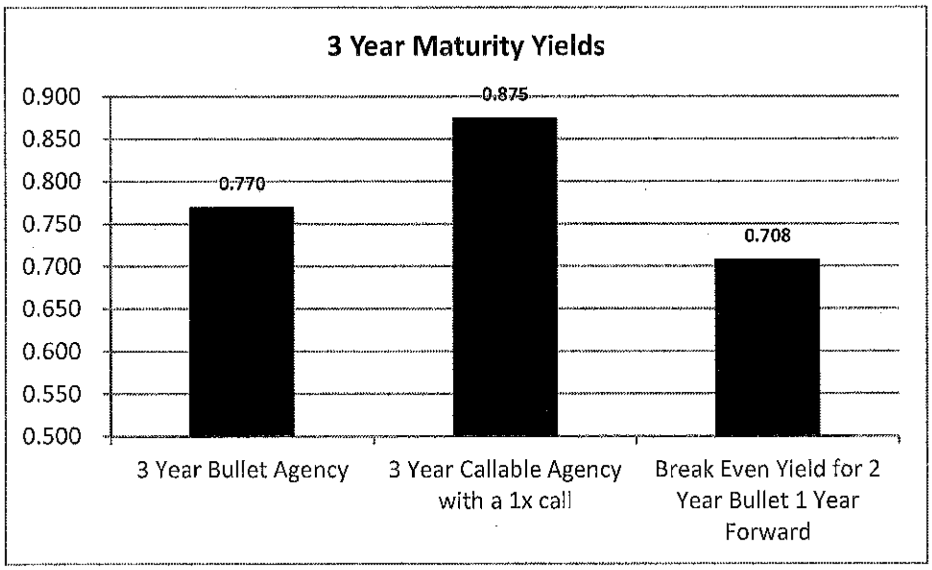
Agency Callable Note Summary	**Mountain View**	**California Code**
Maximum maturity	Not permitted	5 years
Minimum credit quality	Not permitted	Silent
Max percentage of total portfolio	Not permitted	Silent

Callable agency securities can add value to a high quality portfolio but the analysis required to determine relative value is complex. The number of times a bond is callable, the length of time until the first call, and the overall maximum maturity of the bond are some of the more important factors to consider. Typically callable agencies provide an opportunity for outperformance when interest rates are range bound. It is important to diversify the call lockout frequency to reduce reinvestment and extension risk.

A callable bond is a package of securities:

- Purchase of a fixed maturity bond.
- Sale of one or more call options.
- The extra yield is the price the investor receives for selling the option.

Simple example of recently issued 3 Year Maturity 1x Callable Note:



- Given the current structure of interest rates in the agency sector the above bond will likely be called.
- Purchasing the callable security will be a better investment than the straight bullet under the assumption 1 year from now you can purchase a 2 year bond yielding at least 0.708%.
- Given the simple 1x callable structure the extension risk is minimized.
- More complex structures with more frequent call dates require more complicated analysis and carry greater extension risk.

Challenges of callable bonds:

- The cash flows are uncertain, and investors dislike uncertainty.
- Reinvestment risk is elevated, since principal, as well as interest, may have to be reinvested.
- Price appreciation is capped near the redemption price for callable notes – depreciation is not capped.
- The actual duration of a callable note is unknown.
- Liquidity for callable notes is lower than for bullet issues.

Under certain conditions Chandler Asset Management utilizes callable agency securities. These are added in a measured allocation relative to the agency allocation of a portfolio. Typically, we are more active in the sector when volatility is high. High volatility magnifies the value of the call option, which, in turn, adds to the yield of the security. In the current investing environment, interest rate volatility in shorter maturity assets is below average, offset by the Federal Reserve's statement to keep monetary policy on hold until midyear 2013. When taking into account the totality of investment opportunities available in the market, callable securities warrant analysis for potential inclusion in high quality portfolios in our view.

Investment Survey Information

As of June 30, 2011

	Corps Notes	% Allowed	% Actual	Callable Securites	Limits on CS	% Actual
Campbell	Yes	10.0%	5.00%	Yes	5 yrs	26.00%
Cupertino	Yes	30.0%	0.00%	Yes	5 Yrs	0.00%
Gilroy	No	n/a	n/a	Yes	5 yrs	50.00%
Los Altos						
Los Altos Hills						
Los Gatos				Yes	5 yrs	21.64%
Milpitas						
Monte Sereno						
Morgan Hill	No	n/a	n/a	Yes	5 yrs	17.00%
Mountain View	Yes	10.0%	0.00%	No	n/a	n/a
Palo Alto	Yes	10.0%	0.00%	Yes	25%/10 yrs	18.10%
San Jose	Yes	20.0%	2.00%	Yes	5 yrs	5.00%
Santa Clara	Yes	15.0%	7.86%	Yes	5 yrs	20.17%
Saratoga	No	n/a	na	No	n/a	n/a
Sunnyvale	Yes	30.0%	1.37%	Yes	5 yrs	0.00%
Foster City	Yes		0.00%	Yes		92.00%
San Mateo	Yes	10.0%	1.30%	Yes	5 years	18.00%
Redwood City	Yes	30.0%	0.00%	Yes	5years	69.00%

SANTA CLARA VALLEY WATER DISTRICT
BOARD INVESTMENT POLICY

July 1, 2018

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adverse changes in interest rates is alleviated by maturity and instrument diversification. Please refer to Exhibit B for a summary of credit rating scales.

3.2 Liquidity

In order to ensure adequate liquidity, the average life of the investment portfolio of the District shall be maintained at approximately two and one half (2.5) years, but may be adjusted from time-to-time to meet ongoing cash flow needs of the portfolio.

3.3 Return on Investment

The District's investment portfolio shall be designed with the objective of attaining the greatest yield to maturity consistent with the preservation of capital and the maintenance of adequate liquidity.

3.4 Socially Responsible Investment

In addition to the investment objectives of safety, liquidity, and yield, the District encourages investing in corporate securities, banking institutions and state agencies that meet the Environmental, Social, Governance (ESG) factors in Appendix 1. The District shall use best efforts to follow the ESG Guiding Principles and utilize the Investment Evaluation Scorecard to evaluate and approve such investments to ensure compliance with the ESG factors.

3.4.1 The ESG factors shall include considerations for local California based businesses.

3.5 California Certificates of Deposit

To the extent permitted by the California Government Code, while meeting the District's investment objectives for safety, liquidity and yield, the District encourages investing in Certificates of Deposit issued by California based banks, up to the Federal Deposit Insurance Corporation limit at the time of such investment which is currently set at $250,000, as amended.

3.5.1 Keeping investments to local banks, within the Bay Area, to keep money at home and jobs local; invest only in banks with below $10 billion in assets; and keep 5% of liquid cash in these banks for a limited of 5 years (short term) at the discretion of the Treasurer.

4.0 DELEGATION OF INVESTMENT AUTHORITY

California Government Code Section 53607 provides the authority for the legislative body of the local agency to delegate for one-year periods to the Treasurer of the local agency the full responsibility to invest or reinvest local agency funds. Furthermore, Government Code Section 53608 allows the Board to delegate the authority to deposit funds for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank locate in any city designated as a reserve city by the Board of Governors of the Federal Reserve System.

Appendix 1 – Environmental, Social, Governance Factors

Guiding Principles

When evaluating potential investments in corporate and financial institution securities, the Investment Committee shall follow the guiding principles:

Negative Screens: No investments shall be made in companies significantly involved in the production or sale of fossil fuels, tobacco, and other products that are environmentally harmful. Furthermore, to the extent possible while maintaining adequate safety, liquidity and yield of the portfolio, no investments shall be made in companies with a demonstrated record of the following:

- poor practices with respect to environmental regulation, greenhouse gas emissions, toxins, hazardous waste or environment justice
- human rights abuse, violations of international law, and/or materially or otherwise supporting repressive regimes
- endangering rural people's access to the land, water and other resources on which their livelihoods depend
- violating labor laws, abusing or otherwise mistreating workers and/or preventing or impeding unionization
- discrimination based on sexual orientation, gender, race, ethnicity, age or disability
- practices which have significant negative effects on affected communities, particularly those with minority or low-income residents
- restriction of access to affordable medicine in the developing world

Positive Screens: To the extent possible while maintaining adequate safety, liquidity and yield of the portfolio, investments shall be made in companies involved in the production of renewable energy and organic food, local food and sustainable agriculture and generally, invest in companies and investments that demonstrate commitment to:

- environmental sustainability, including reducing greenhouse gas emissions and sustainable forestry
- community development and/or investment, particularly in communities with minority or low-income residents
- diversity in hiring, executives and boards with respect to sexual orientation, gender, race, ethnicity
- living wages for all employees and collective bargaining
- transparency and accountability in corporate governance

Environmental, Social, Governance (ESG) Factors

Environmental	
Category	**Considerations**
Climate change & pollution	Does the company have a stated commitment to emissions reduction? What is the firm doing to combat climate change? Does the firm participate in carbon crediting/offset programs? Has the company been cited for excessive pollution? Does the company have an emissions reduction program?
Energy efficiency & waste management	Has the firm employed energy efficient design or retrofits in its buildings? Does the firm participate in E-Waste recycling programs? Do the operations require heavy use of chemicals?
Water use & management	Where does the company get its water? Have they installed smart filling stations and efficient fixtures? Does the company operate in water-stressed areas?
Land use & management	Are company facilities designed to minimize damage to the surrounding habitat? Does the company actively participate in greening or reforestation efforts? Does the company encourage alternative methods of transportation to and from work; if so, does building design facilitate these methods?

Social	
Category	**Considerations**
Stakeholder relations	Are customers treated as key stakeholders in the company? Do minority shareholders have an outlet to voice opinions regarding company operations? Are fair labor standards enforced? Do workers have representation in order to bring concerns to management?
Value chain management	Does the firm's supply chain reflect adequate working conditions and respect for human rights? Does the company hold suppliers to stated ethical and moral standards? Does the company have any outstanding litigation over its products; are the products generally safe? Are suppliers practicing sustainable production methods?
Community Impact	Is the firm engaged with local non-profits to combat social issues in the community? Does the company donate a share of profits to advocate for impact issues? Does the company make an effort to hire and promote employees from the surrounding community?
Local/California business?	In what city is the firm located? Is the business located in the San Jose-San Francisco Metropolitan Statistical Area? Is the business located in California?

Corporate Governance	
Category	**Considerations**
Diversity	Are the workplace and board comprised of people from diverse backgrounds and ethnicities? Does the board have a roughly equal number of men and women?
Compensation	What is the ratio of executive pay to worker pay? Is executive compensation based on identifiable metrics? Are employees receiving equal pay for equal work?
Accountability & audit quality	Does the company employ a large number of special purpose vehicles and other off-balance sheet entities? Does the audit clearly stake risks to which the firm is exposed?
Cyber/Information Security	Does the company have a stated cyber/information security policy? Has the company been hacked in the last 3 years? What corrections/improvements have been made to prevent future hacks?
Transparency	Are internal discussions about the company kept hidden, or does the company routinely publish information for public consumption? Are the firm's financials easily understood? Is the firm readily accessible and do they respond to requests for comment?

City of Palo Alto (ID # 9289)
Finance Committee Staff Report

Report Type: Action Items **Meeting Date: 9/4/2018**

Summary Title: Investment Policy Update

Title: Adoption of Fiscal Year 2019 Investment Policy

From: City Manager

Lead Department: Administrative Services

Recommendation
Staff recommends that Finance Committee recommend that the City Council approve the City's Investment Policy (Policy) with the following changes:

1. Add language codifying the existing environmental, social and governance **(ESG)** practice (Page 3 of Attachment A).
2. Increase the Negotiable Certificates of Deposit **(NCD)** not to exceed limit to 20 percent from 10 percent of the par value of the portfolio (Page 7 of Attachment A) to allow for greater investment with community banks and increase portfolio diversification.
3. Add "Supranational Organizations Securities" as authorized investments to increase social investing with not to exceed 10 years of maturity, no more than 20 percent of the par value of the portfolio, no more than 10 percent of par value with any one institution, and with a minimum rating of double A, and limited to United States dollar denominated senior debt obligations of International Bank for Reconstruction and Development **(IBRD)**, International Finance Corporation **(IFC)** and Inter-American Development Bank **(IADB)**. Update Appendix A and C to reflect the addition of supranational organizations as authorized investments (Pages 7, 8, 14, 15, & 21 of Attachment A).
4. Add Manager of Treasury, Debt & Investments and Senior Management Analyst as an authorized investment personnel (Pages 8 & 9 of Attachment A) to align with job duties.
5. Increase the Manager of Treasury, Debt & Investments and Senior Management Analyst's authority to transfer funds from the City's general (checking) account to an authorized financial institution to $10 million per day from $8 million per day (Pages 8 & 9 of Attachment A) to better align with increased cash activities.
6. Remove the Tennessee Valley Authority (TVA) agency securities as an authorized investment and keep their existing $9.4 million investments to maturity (Page 11 of Attachment A) to reflect the transition out of fossil fuel-related investments.
7. Add under SCOPE section (Page 3 of Attachment A) that Public Agency Retirement

Services (PARS) section 115 irrevocable trust investments are not covered by the Investment Policy.

8. Add the rating service agency Fitch as an example of a nationally recognized rating service; currently Moody's and Standard and Poor's are only mentioned (Pages 5 to 7 of Attachment A).

Discussion

Historically, during the annual budget process, staff submits the Investment Policy (Policy) to City Council for review and approval (Attachment A). This year the Policy is being brought to the Finance Committee first. Also, it's being submitted after the budget process due to scheduling conflicts. For Fiscal Year (FY) 2019, staff is proposing to update the Policy to reflect the following changes:

1. For decades, staff has informally used various environmental and social considerations in investment decisions, for example, not investing in entities that directly manufacture tobacco products, firearms, and those engaged in direct production or drilling of fossil fuels. The recommendation is to codify this practice in the Policy. Investments in Certificates of Deposit **(CD)** and Negotiable Certificates of Deposit (NCD) are exempt from the ESG investing requirement.

2. The City has heavily invested in local or community banks through the purchase of Negotiable Certificates of Deposit **(NCD)**. The City's portfolio has NCD from 210 separate banks totaling $50.3 million of which 136 separate banks totaling $32.6 million or 65 percent of all NCD are in banks with ten or less branches. Of the latter, 77% or 105 separate banks NCD totaling $25 million are in local banks with five or less branches. Each bank's NCD are $250,000 or less so they are fully insured by the Federal Deposit Insurance Corporation **(FDIC)** against principal loss.

   Staff is recommending increasing the NCD Policy's limit to 20 percent from the current 10 percent of the par value of the portfolio which would bring it in line with the Certificate of Deposit's **(CD)** 20 percent limit. This will allow further portfolio diversification and investments in additional community banks. No additional risk will be incurred in additional NCD purchases since future purchases will also be within the FDIC limit.

3. To further enhance City's social investing while not sacrificing safety, staff is recommending adding highly rated "Supranational Organizations Securities" as permitted investments. Supranational organizations refer to International Bank for Reconstruction and Development **(IBRD),** International Finance Corporation **(IFC)**, and Inter-American Development Bank **(IADB).** These entities were established with the purpose of ending poverty and raising the standard of living around the world through sustainable economic growth.

California Government Code (**CGC** 53601) defines allowable supranational securities as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by IBRD, IFC, and IADB. Supranationals are well capitalized and have strong credit support from member countries. CGC 53601 was amended effective January 1, 2015 to allow local agencies to invest in the senior debt obligations of these three supranationals.

Additional characteristics shared by the IBRD, IFC, and IADB include:

a) Headquartered in Washington, D.C. with the United States as the largest shareholder of each organization (e.g. BRD: 17%, IFC: 22%, IADB: 30%).
b) All three supranational are rated triple A by S&P and Moody's plus Fitch rates IADB and IBRD triple A based on a solid financial structure, conservative financial policies and consistent performance, as well as support and capital backing from its shareholders or member countries.
c) Bullets securities comprise the majority of their outstanding debt.
d) The IBRD and IADB provide loans and guarantees exclusively to sovereigns and government backed projects
e) The IFC supports the creation and growth of private companies through direct lending and equity investment, attracting third party capital, and providing advisory services.

The policy recommendation is to add IBRD, IFC and IADB securities as authorized investments with the following criteria:

a) Securities will not exceed 10 years maturity.
b) No more than 20 percent of the par value of the portfolio.
c) No more than 10 percent of the par value with any one institution.
d) Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard & Poor's).
e) Limited to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by IBRD, IFC, and IADB.

California cities' Investment Policy that allows supranational investments includes cities of Sunnyvale, San Jose, Oakland, Fairfield, Riverside, San Diego, and City and County of San Francisco.

4. A previously classified Senior Financial/Management Analyst (Analyst), as authorized by the Assistant Director of Administrative Services (Assistant), enters into investments within clearly specified parameters. In order to properly align the job classification with the duties needed and performed within the Administrative Services Department, this Analyst position was reclassified to Manager of Treasury, Debt, & Investments. The recommendation is to update the Investment Policy to reflect this change. Also, to provide greater flexibility to the Assistant in delegating this task and managing the work

load, it's recommended that the Senior Management Analyst be added. Again, to properly align the job classification with the duties, Senior Financial Analysts were previously reclassified to Senior Management Analysts.

5. The request to increase the Manager of Treasury, Debt & Investments (Manager) and Senior Management Analyst's (Analyst) authority to transfer funds is primarily a consequence of higher payments to Northern California Power Agency **(NCPA)** and counterparties for electric and gas commodities and the higher cash flow activity between the City's LAIF and its main checking account. **LAIF** (Local Agency Investment Fund) is a State of California run investment pool where most of the City's daily liquid funds are deposited. Utility wire payments have increased from $92 million (annually) in FY 2012 to over an expected $122 million (annually) in FY 2018, a 33 percent increase. The current limit on the Manager and Analyst to transfer no more than a total amount of $8 million a day from the City's general (checking) account to an authorized financial institution has proven inadequate. It's recommended that this limit be raised to $10 million to reflect the growth in commodity payments and higher general checking account cash activity. It should be noted that any transfer of funds to pay commodity or other high value invoices is subject to approvals by the department head or his or her designee requesting payment. In addition, wire transfers have strict controls in that they require two ASD staff members to process, an Accounting or third ASD staff to post to the City's financial system, and are subject to annual audit by the City's external auditor. Cash flow between the City's LAIF and general checking account is restricted to these accounts so payments cannot be redirected to an alternate account.

6. In addition to the current and recommended investments that support sound environmental, social and governance **(ESG)** investing, in this fiscal year, the City has expanded into "green" municipal bond purchases. To date, $10.6 million in "green" municipal revenue bonds have been purchased which financed photovoltaic energy systems installations on municipal buildings, mass transportation (electrification) project, and municipal utility wind turbine and solar projects. These investments have been done under existing permitted investments so no Policy change is needed. Staff expects to make additional such investments.

   A driver for the "green" bond purchase and the ESG Policy changes recommendation is due to staff being responsive to community suggestions in this area. Included among the suggestion is divesting the City's $9.4 million par investment in Tennessee Valley Authority (TVA) bonds. TVA is a U.S. federally owned corporation created by congressional charter in 1933 to provide navigation, flood control, electricity generation, fertilizer manufacturing, and economic development to a region of the county that was greatly affected by the Great Depression. The concern cited as to why the City should divest in TVA bonds is their use of fossil fuels; specifically for electricity generation. In response, staff suspended further TVA bond purchase and is recommending removing TVA as an authorized investment but has retained the existing

$9.4 million investments. These investments consist of four TVA security bonds with staggered maturities from February 2021 to November 2025. They are highly rated (implied triple A and AA+) because they have the implied backing of the U.S. government so are very safe investments. Since, due to a rising interest rate environment, selling these securities prior to maturity would result in realizing over $0.34 million in loss while holding them to maturity would not, staff is recommending, consistent with the Policy's "buy and hold philosophy", holding them to their maturity dates. Stopping new TVA bond purchase won't materially impact the portfolio's safety, diversification, and/or yield since other highly rated securities like other U.S. government agency, municipal, and/or supranational obligations can be purchased. The latter is subject to the Finance Committee and City Council's approval.

7. In May 2017, the City established the Public Agencies Post-Employment Benefits Trust Administered by Public Agency Retirement Services **(PARS)** with an initial deposit of $2.1 million followed by a $3.4 million deposit in May 2018. The Section 115 Trust (Trust) will prefund pension costs and begin to address GASB 68 Net Pension Liabilities. The Trust offers five portfolios that govern investment choices with each portfolio having different risk profiles with different amounts invested in equities and other instruments. As the amount of equities in the portfolio increases, volatility and risk increases and vice versa. Staff recommended and Council approved a "Moderately Conservative" portfolio which is the second most conservative portfolio among the five offered. For clarity, staff recommends the Investment Policy state the Trust is not covered by the Investment Policy since the Trust investment portfolio decision is made separately.

8. To remove any ambiguity, recommending the rating service agency Fitch be added as an example of a nationally recognized statistical rating organization (**NRSRO**). Fitch is one of three NRSRO designated by the U.S. Securities and Exchange Commission.

Resource Impact

Except for the additional (existing) staff time to evaluate, purchase, and monitor securities that support sound environmental, social and governance (ESG) investing, there is no budget impact associated with this report.

Policy Implications

This recommendation contains a change to the City's Investment Policy (Policy).

Environmental Review

The actions requested in this report do not constitute a project for the purposes of the California Environmental Quality Act (CEQA).

Attachments:

- Attachment A: Proposed City of Palo Alto Investment Policy, Fiscal Year 2018-19

Attachment A

PROPOSED CITY OF PALO ALTO
Investment Policy
Fiscal Year 2018-19

With Changes

INTRODUCTION

The City of Palo Alto invests its pooled idle cash according to State of California law and the charter of the City of Palo Alto. In particular, the City follows "The Prudent Investor Standard" cited in the State Government Code (Section 53600.3). Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City 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.

INVESTMENT PHILOSOPHY

The basic principles underlying Palo Alto's investment philosophy is to ensure the safety of public funds; provide that sufficient money is always available to meet current expenditures; and achieve a reasonable rate of return on its investments.

The City's preferred and chief practice is to buy securities and to hold them to their date of maturity rather than to trade or sell securities prior to maturity. The City may, however, elect to sell a security prior to its maturity should there be a significant financial need. If securities are purchased and held to their maturity date, then any changes in the market value of those securities during their life will have no effect on their principal value. Under a buy and hold philosophy, the City is able to protect its invested principal. The economy, the money markets, and various financial institutions (such as the Federal Reserve System) are monitored carefully to make prudent investments and to assess the condition of the City's portfolio.

INVESTMENT OBJECTIVES

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITIES

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

This section applies to new investments 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 requirement.

SCOPE

A. This investment policy shall apply to all financial assets of the City of Palo Alto as accounted for in the Comprehensive Annual Financial Report (CAFR), 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), ~~or funds of the~~ Deferred Compensation programs (e.g. ICMA, Hartford), and 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 cash needs in short term

Attachment 5
Sunnyvale

Policy 7.1.2 Investment and Cash Management

POLICY PURPOSE:

The City establishes investment policies that meet its current investment goals. This policy is intended to establish objectives and criteria for the investment of the City's temporarily idle funds and for the City's Redevelopment Successor Agency and to provide guidelines for the City's cash management system.

This policy is set forth by the City of Sunnyvale (City) for the following purposes:

1. To establish a clear understanding for the City Council, City management, responsible employees, citizens and third parties of the objectives, policies and guidelines for the investment of the City's temporarily idle funds;

2. To offer guidance to investment staff on the investment of City funds; and

3. To establish a basis for evaluating investment results.

POLICY STATEMENT:

Objectives

The City's cash management system shall be designed to accurately monitor and forecast expenditures and revenues, to enable the City to invest funds to the fullest extent possible.

Idle funds of the City shall be invested in accordance with principles of sound treasury management and in accordance with the provisions of California Government Code Section 53600 et seq., the City Charter, the City's Municipal Code and this policy.

The objectives of the City's investment program are, in order of priority:

1. Safety – Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

2. Liquidity – The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

3. Return on Investment –The City's investment portfolio shall be designed with the objective of attaining the safety and liquidity objectives first, and then attaining a market rate of return throughout the budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

16. **Supranational Securities**. CGC 53601 defines allowable Supranational Securities as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by: the International Bank for Reconstruction and Development, the International Finance Corporation, or Inter-American Development Bank, provided that:

    A. No more than 30% of the total portfolio may be invested in Supranational securities;
    B. No more than 10% of the portfolio may be invested in any single issuer.
    C. The maturity does not exceed 5 years from the date of purchase;
    D. The instruments are eligible for purchase and resale within the United States; and
    E. The rating by a nationally recognized statistical rating organization is in the "AA" category or its equivalent or better.

<u>Prohibited Investment Vehicles and Practices</u>

1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, mutual funds (other than government money market funds as described in Section III A(12), unregulated and/or unrated investment pools or trusts, and futures and options.

2. In accordance with Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.

3. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.

4. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.

5. Purchasing or selling securities on margin is prohibited.

6. No securities subject to rule 144A restrictions that are not required to be registered with the Securities and Exchange Commission (SEC).

<u>Social and Environmental Responsibility</u>

The City has a desire to encourage investments that support sound environmental, social and governance (ESG) investing. While the portfolio may not be classified as an ESG portfolio, investments in entities that support community well-being through safe and environmentally sound practices and fair labor practices and equality of rights regardless of sex, race, age, disability, or sexual orientation is encouraged. Investments are discouraged in entities that manufacture tobacco products, or firearms or nuclear weapons not used in the national defense of the United States, and are direct or indirect investments to support the production or drilling of fossil fuels.

EXHIBIT A
City of San José, California

COUNCIL POLICY

TITLE CITY OF SAN JOSE INVESTMENT POLICY	PAGE 1 of 34	POLICY NUMBER 1-12
EFFECTIVE DATE April 2, 1985	REVISED DATE March 6, 2018	

APPROVED BY COUNCIL ACTION 4/2/85, Res. No. 58200; 11/03/87, Item 7e(6); 9/20/88, Item 10a, Res. No. 60898; 12/13/88, Item 6f(1), Res. No. 61089; 9/12/89, Item 6f(2), Res. No. 61661; 12/8/92, Item 7e(9); 10/12/93, Item 9f, Res. No. 64925; 1/25/94, Item 7d(4); 2/1/94, Item 6f(8); 3/7/95, Item 7d(5); 4/23/96, Item 9j, Res. No. 66571; 06/26/01, Item 3.10; 5/21/02, Item 3.4, Res. No. 70976; 6/04/02, Item 3.7, Res. No. 71005; 6/24/08, Item 2.13, Res. No. 74474; 6/09/09, Item 2.6, Res. No. 74941; 12/8/09, Item 3.8(b), Res. No. 75198; 09/28/10, Item 3.3, Res. No. 75576; 08/30/11, Item 3.6, Res. No. 75975; 08/28/12, Item 2.15, Res. No. 76418; 9/10/13, Item 2.8, Res. No. 76783; 9/16/2014 Item 2.13, Res. No. 77157; 6/9/15, Item 3.11, Res. No. 77384; 6/7/16, Item 3.3, Res. No. 77765; 3/7/17, Item 3.5, Res. No. 78100; 3/6/18, Item 3.5, Res. No. 78524

1.0 POLICY

The purpose of this Investment Policy ("Policy") is to establish overall guidelines for the management and investment of the City of San Jose's ("City") public funds.

It is the policy of the City to invest public funds in a manner to meet the City objectives, in order of priority, safety of invested funds, maintenance of sufficient liquidity to meet cash flow needs; and attainment of a rate of return consistent with the first two objectives, while conforming to the provisions of California Government Code Sections 53600 et seq.[1], the Charter of the City of San Jose, the City of San Jose Municipal Code, and this Policy.

2.0 SCOPE

This Policy applies to all funds, entities and investment activities under the Director of Finance's control as accounted for in the Comprehensive Annual Financial Report, including but not limited to the following unless specifically exempted by statute or ordinance:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds

[1] Even though the provisions of California Government Code Sections 53600 et. seq. do not necessarily apply to the City as a charter city the City has determined that it is prudent to conform this Investment Policy to State law.

d. A brief description of executed reverse repos and the associated interest cost and interest earnings from the transactions.
e. A brief description of executed restructuring transactions. Number and dollar volume of trades executed for the sole purpose of restructuring the portfolio and analysis of benefit derived from those trades.
f. A description of any security purchased during the quarter with a maturity exceeding five years.
g. A description of any security downgraded below the minimum acceptable ratings level (below prime for short term ratings, or below investment grade for long term ratings).

19.5 Investment Strategy

A description of the current investment strategy, and the assumptions upon which it is based.

20.0 REPORTING POLICY EXCEPTIONS

While this Policy prescribes various maximums, minimums and other relatively arbitrary numerical limits, it is intended primarily to be a management tool. When the Director of Finance determines that an exception to one of the Policy's numerical limits is in the best interest of the City, and is otherwise consistent with the Policy, such exception is permitted so long as it is consistent with applicable City, State and Federal laws. Whenever an exception or violation of this Policy is made, that fact shall be reported to the City Manager within three business days, and to the City Council within 10 days of its discovery. Major exceptions will be reported immediately. All exceptions to the Policy and the appropriate explanation or justification for the exception shall be included in the Quarterly Investment Report. Fluctuations in portfolio assets can cause technical exceptions to the various percentage limits of the Policy which should not be interpreted as "reportable exceptions". The Director of Finance may choose to rebalance the portfolio if percentage imbalances are deemed to impair portfolio diversification.

21.0 SEMI-ANNUAL COMPLIANCE AUDITS

No less than semi-annually each year, a compliance audit shall be conducted of the City's investment program to determine whether the City's investments within the City's pooled portfolio are in compliance with the City's Investment Policy, internal controls, and department procedures. If the City Council does not direct that the compliance audits be included in the City Auditor's annual workplan, then the Director of Finance shall cause such compliance audits to be conducted by an external auditor.

22.0 SOCIAL RESPONSIBILITY

In addition to and subordinate to the objectives set forth in Section 4.0 herein, investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with socially responsible investment goals as long as such investments achieve substantially equivalent safety, liquidity and yield compared to other investments permitted by the Policy.

Investments are encouraged in i) entities that support community well-being through safe and environmentally sound practices and fair labor practices; ii) entities that support equality of rights regardless of sex, race, age, disability or sexual orientation; and iii) entities that serve all members of the local community and promote community economic development. To the extent competing entities offer investment products of substantially equivalent safety, liquidity and yield, a Community Reinvestment Act rating of "satisfactory" or higher will be used as an investment criterion to differentiate between similar entities' investment products.

This section applies to new investments only and does not require divestment of existing investments.

23.0 INVESTMENT POLICY REVIEW/ADOPTION

The Policy shall be adopted by resolution of the City Council on an annual basis. This Policy shall be reviewed annually to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. An annual Statement of Investment Policy including proposed amendments to the Policy with the exception of minor Policy changes shall be prepared by the Director of Finance for the review and recommendation of the City Council Committee assigned the responsibility for review of Finance Department reports prior to submission to the entire City Council for consideration and approval.

24.0 TRAINING AND CONTINUING EDUCATION

The City strives for professionalism and accountability in the investment of its funds. In order to ensure the highest possible professional standards, the City Investment Officials as defined in the Policy, are encouraged to complete at least 16 hours per year of continuing education programs or other training in cash and investment management.

25.0 GLOSSARY

Definitions of investment-related terms are listed on Exhibit B.

44.8 - TREASURY INVESTMENT POLICY

4.8.1 Statement of Intent

The purpose of this document is to set forth the County of Santa Clara's policy applicable to the investment of short term surplus funds. In general, it is the policy of the County to invest public funds in a manner that will provide a competitive rate of return with maximum security while meeting the cash flow requirements of the County, school districts and special districts whose funds are held in the County Treasury, in accordance with all state laws and County ordinances governing the investment of public funds.

4.8.2 Scope

This investment policy applies to all financial assets held by the County. Those assets specifically included in this investment policy are accounted for in the County's Comprehensive Annual Financial Report and are included here as part of the County's Commingled Investment Pool.

4.8.3 Objectives

The following investment objectives shall be applied in the management of the County's funds.

(A) The foremost objective of the County's investment program shall be to safeguard principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

(B) The secondary objective shall be to meet the liquidity needs of its participants. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

(C) The third objective shall be to attain a market rate of return (yield) throughout budgetary and economic cycles, taking into account the County's investment constraints and cash flow characteristics. The core of investments will be limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Risk Mitigation

Those factors that can lead to an unexpected financial loss can be broadly grouped into the following categories; credit risk, liquidity risk, interest rate risk and operational risk. Credit risk is the possibility that a bond issuer will default or that the change in the credit quality of counter-party will affect the value of a security. Liquidity risk for a portfolio that does not market value its holdings on a daily basis is the risk that sufficient cash or cash equivalents are not available and a security may have to be sold at a loss (based on its original cost) in order to meet a payment liability. Interest rate risk is the risk that the value of a fixed income security or portfolio will fall as a result of an increase in interest rates. Operational risk refers to potential losses resulting from inadequate systems, management failure, faulty controls, fraud and human error.

It is part of this policy to pursue the listed actions below to reduce the risk of exposure to the County's investments.

Credit Risk

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- Only purchasing securities that meet ratings standards specified in this policy.

Money Market Funds. Companies issuing such money market funds must have assets under management in excess of $500,000,000. The advisors must be registered with the Securities and Exchange Commission (SEC) and have at least five years' experience investing in such types of investments. The fund must reflect the highest rating by at least two of these NRSRO's: Moody's (Aaa), Standard and Poor's (AAA), and Fitch (AAA). No more than 20% of the Treasury's funds may be invested in money market funds and no more than 10% of the Treasury's funds may be invested in one money market fund. If the money market fund is tax-exempt then only one "AAA" rating by an NRSRO is required. The money market fund must also be "no-load", which is a fund that does not compensate sales intermediaries with a sales charge or commission that is deducted from the return of the fund.

Asset Backed Securities. Asset backed securities (ABS) are notes or bonds secured or collateralized by pools of loans such as installment loans or receivables.

- Securities shall be issued by an issuer whose debt must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-).
- The asset backed security itself must reflect the following ratings or higher from at least two of these NRSRO's: Moody's (AA-), Standard and Poor's (Aa3) and Fitch (AA-).
- Asset backed securities together with mortgage backed securities may not exceed 20% of the Treasury's surplus money.

Agency Mortgage Backed Securities. Mortgage backed securities (MBS) are-collateralized by pools of conforming mortgage loans or multi-family mortgage loans insured by FHLMC or FNMA and or guaranteed by FHA (GNMA).

- Agency mortgage backed securities together with asset backed securities may not exceed 20% of the Treasury's surplus money.

Supranational Debt Obligations

United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development of the World Bank (IBRD) or the Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments must be rated "AAA" or better by at least two of the following, NRSRO's, Moody's, Standard and Poor's or Fitch and shall not exceed ten percent, in aggregate, of the Treasury's surplus funds.

General Parameters

Socially Responsible Investments

Whenever possible, in addition to and subordinate to the objectives set forth in section 4.8.3 herein, it is the County's policy to create a positive impact by investing in socially responsible corporations and agencies as defined by priorities set by the Board of Supervisors.

Ineligible Investments

Ineligible investments include common stock, inverse floaters, range notes, mortgage-derived interest only strips and any security that could result in zero interest accrual if held to maturity or any security that does not pay (cash or earn accrued) interest in one year or at least semi-annually in subsequent years and any investment not authorized by this policy unless otherwise allowed by law and approved by the Board of Supervisors.