



**COUNCIL FINANCE COMMITTEE/
INVESTMENT REVIEW COMMITTEE**

AGENDA

NOTICE AND AGENDA

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

1. CALL TO ORDER

2. ROLL CALL – Committee members Lisa Matichak, John McAlister, Steven Permut, Janice Phan, and Chair Ken Rosenberg.

3. MINUTES APPROVAL

Minutes for the September 9, 2017 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 DISCUSSION ON TWO FOLLOW-UP ITEMS FROM THE IRC MEETING LAST YEAR FOR:

- 1. SOCIALLY RESPONSIBLE INVESTING RELATED TO ENERGY COMPANIES**
- 2. SEGREGATION OF A PORTION OF THE PORTFOLIO FOR LONGER-TERM MATURITIES**

6. NEW BUSINESS

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

Presentation by Carlos Oblites, Senior Vice President, Portfolio Strategist, of Chandler Asset Management, the City's investment advisor, regarding the City's investment practices and investment policy (verbal presentation, no staff report).

6.2 REPORT FROM INVESTMENT COMMITTEE

Presentation by Finance and Administrative Services Director Patty Kong and Assistant Finance and Administrative Services Director Suzy Niederhofer on the portfolio results and draft Fiscal Year 2017-18 Investment Review Committee report to the City Council.

7. COMMITTEE/STAFF COMMENTS, QUESTIONS, COMMITTEE REPORTS

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

8. ADJOURNMENT

EC/2/FIN
540-10-31-18A

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.



**COUNCIL FINANCE COMMITTEE/
INVESTMENT REVIEW COMMITTEE**

MINUTES

SPECIAL MEETING – THURSDAY, SEPTEMBER 7, 2017
PLAZA CONFERENCE ROOM AT CITY HALL – 500 CASTRO STREET
3:00 P.M.

1. CALL TO ORDER

Chair Rosenberg called the meeting to order at 3:04 p.m.

2. ROLL CALL

Present: Committee members Margaret Abe-Koga (arrived 3:08 p.m.), Lisa Matchak, Steven Permut, Janice Phan, and Chair Ken Rosenberg.

Absent: None.

3. MINUTES APPROVAL

Motion – M/S Permut/Rosenberg – Carried 4-0-1 (Abe-Koga absent) – Approve the minutes for the Special Meeting of October 18, 2016.

4. ORAL COMMUNICATIONS FROM THE PUBLIC – None.

5. UNFINISHED BUSINESS – None.

6. NEW BUSINESS

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

Bill Dennehy from Chandler Asset Management (Chandler), the City's external investment advisor, delivered his economic update presentation. He described the oversight that the Committee, Chandler, and staff provide. The Investment Policy and the way the portfolio is managed are consistent with the core tenets of the California Government Code of safety, liquidity, and yield. The portfolio is well diversified between agencies, Supranationals, and corporate holdings. Everything is in compliance.

For the economic update, Chandler thinks the forecast for the terminal Fed Funds rate of 3.0 percent is too high. They believe a better estimate is 2.0 percent to 2.5 percent due to global growth outlook and demographics. Outlook for interest rates will not be expected to go higher in one to three years. From a monetary policy standpoint, they are expecting the Fed to shrink the size of their balance sheet, which would make the yield curve steepen. The Equities market is optimistic. For now, they may want to stay a bit shorter, but should continue to focus on maintaining the structure of the portfolio.

Committee member Phan asked if the City should purchase floaters. Bill Dennehy stated that floaters are not really attractive and there is no need with the City's liquidity with LAIF.

Chair Rosenberg asked about Supranationals. They are marginally more attractive than the agencies. They just are not readily available since they are not issued frequently.

Committee member Matchak brought up the policy's section regarding social responsibility and mentioned that Chevron and Exxon do not have environmentally sound practices. Bill Dennehy stated that the policy only precludes tobacco and firearms. Precluding investing in energy securities will curtail the ability to invest in corporate securities, particularly with the "AA" rating requirement put in place. Finance and Administrative Services Director Patty Kong suggested discussion should go under Item 6.2.

6.2 REPORT FROM INVESTMENT REVIEW COMMITTEE

Assistant Finance and Administrative Services Director Suzy Niederhofer made the presentation of the results of the fiscal year and the annual report. Throughout the year, staff rebalances the portfolio to within 3 percent of the benchmark duration. Policy states that the portfolio needs to be rebalanced within 3 percent each quarter and within 15 percent at all times. The portfolio has met that requirement. Developer fees have helped to increase the size of the portfolio to \$545 million. The Committee agreed to increase the percentage invested in corporate notes to 15 percent of the portfolio. Staff's goal is to get to 10 percent since the portfolio has grown. Supranationals were added as permitted investments two years ago. There were no violations during the fiscal year. Another action the Committee took last year

was to include the Library Endowment Fund of \$400,000 to the pooled investment portfolio and segregating the fund. The Library Fund earned \$3,432 of which 75 percent or \$2,574 is available for library books and programs.

Staff then asked the Committee for discussion on the Policy or investments and for proposed changes to the Policy. Committee member Matichak brought up the investments in Chevron and Exxon and asked if there are opportunities to replace those investments without significant impact on the portfolio. Bill Dennehy stated that it would be difficult to replace these investments unless other elements of the Policy were changed to create other opportunities, such as lowering the rating on the investments to "A." Without other changes, the corporate component of the portfolio would shrink. Committee member Permut stated he is opposed to changing the rating category to "A" and taking on more risk; that it was not the intention when the Committee recommended expanding the Corporate Note Program. He recommends sticking to credit quality that the portfolio has now. He also recommends researching outside sources that rate corporations on social responsibility called Environmental and Social Governance (ESG). Bill responded that there is no standard rating. The Committee directed staff to look into this and return with information.

Committee member Permut spoke about the growth of the portfolio and questioned if a portion of the portfolio, not subject to cash flow needs, could be invested in longer-term securities subject to State Code requirements. The Committee directed staff to look into and return with a recommendation.

7. **COMMITTEE/STAFF COMMENTS, QUESTIONS, COMMITTEE REPORTS –**
None.
8. **ADJOURNMENT**

The meeting was adjourned at order at 4:06 p.m.



MEMORANDUM

Finance and Administrative
Services Department

DATE: October 31, 2018

TO: Investment Review Committee

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

SUBJECT: Investment Review Committee Annual Report

PURPOSE

For the Investment Review Committee (Committee) to hold its annual meeting to review the City's investment portfolio pursuant to Section 14.3 of City Council Policy B-2 Investment Policy (Policy) (Exhibit 1 to Attachment 1).

BACKGROUND

Annually, the Committee meets to review the City's investment portfolio and policy. An updated version of last fiscal year's Committee report is included as a starting point for the Committee (Attachment 1).

Last year, the Committee discussed the Social Responsibility provisions under Section 6.0 of the Policy, specifically the corporate note investments in Chevron and Exxon. While the Policy does not specifically exclude energy companies, the Committee discussed whether investing in such companies was socially responsible. The Committee discussed not wanting to preclude all energy companies as not socially responsible, as some energy companies are investing in renewable energies, and the ability to use a social responsibility rating. There are ratings that may be available, but currently, there may not be rating standards. The Committee directed staff to research potential ratings and return to the Committee with findings.

The Committee also discussed the growth of the portfolio and whether it would be appropriate to segregate a portion of the portfolio not needed for cash-flow purposes to be invested in longer-term maturities. Any maturities greater than five years would require Council approval pursuant to the California Government Code. The Committee directed staff to consider and review this provision and return to the Committee with findings.

The draft minutes from last year's meeting have been presented at this meeting for approval as Item No. 3.

ANALYSIS

Social Responsibility Rating:

Staff has been unable to find a standard rating that could be used to identify socially responsible energy companies. There are agencies that evaluate companies based on three criteria: (1) Environmental (climate change, renewable energy, and sustainability); (2) Social (diversity, labor relations, and conflict minerals); and (3) Governance (management structure, board independence, and executive compensation). This is known as an ESG rating. These ESG rating agencies use criteria to evaluate companies that, unlike credit-rating agencies such as Moody's or S&P, are non-financial. Often the criteria is less well-defined and ESG scores for the same company can vary between agencies. ESG scoring can be subjective as assessment of social responsibility may be materially different from one review to another. Staff's research found it may be some time before there is a structured global methodology.

One of the Committee's concerns was investing in companies (Corporate Notes) involved in "dirty fuels." In determining if Chandler, or another company, can screen for this factor, the City would need to define dirty fuels. The definition would determine how narrow or broad the screen would need to be to meet the potential dirty fuel exclusion. For example, a narrow screen could be to exclude all coal companies, and a broad screen could be to exclude all Corporate Notes that roll up into the energy sector. If a broad screen was used, the City's investment opportunity set for Corporate Notes would be significantly diminished, excluding two of the nine current holdings in the portfolio. However, if a narrow screen like excluding coal companies was used, the current holdings would remain eligible. The number of Corporate Note holdings is already limited based on the minimum rating required by the Policy and quality review by Chandler. Another factor the Committee may want to consider is if the company is also involved in "green fuels."

Last year, Bill Dennehy from Chandler had stated he was assisting a City that was working on defining dirty energy and would provide follow-up on the results. In the end, that City did not pursue writing language into their investment policy to exclude companies in the energy sector.

Segregating a Portion of the Portfolio for Longer-Term Maturities:

Pursuant to California Government Code Section 53601, eligible instruments for maturities greater than five years with City Council approval are Bonds issued by the local agency, U.S. Treasuries, and U.S. Agencies. The City's Policy currently only allows 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. State code further requires the legislative body to grant express authority to make that investment either specifically or as part of an investment program approved by the legislative body no less than three months prior to the investment.

Staff has identified \$60 million, or about 10 percent, of the portfolio that is not needed for cash-flow purposes consisting of a variety of reserves.

In 2011, staff received City Council approval to purchase up to \$10.0 million of Shoreline Regional Park Community (SRPC) bonds issued with a final maturity of not more than 29 years. The \$9.4 million actual purchase (with a final maturity of 20 years) represented approximately 3.4 percent of the City's \$280.4 million portfolio at that time. In conjunction with the approval to purchase the longer term bonds, staff also received City Council approval to separate this longer-term investment from some of the portfolio's reporting requirements, including modified duration and weighted average of maturity.

The current yield curve is relatively flat with a spread of approximately 10 basis points between a 5-year and 10-year Treasury. A more normal yield curve would have greater spreads. Attachment 2 is a Bloomberg chart showing the spread between the 5-year and 10-year Treasury for the past five years. As can be seen, the spread has declined from the high of over 140 basis points in 2013.

RECOMMENDATION

Social Responsibility Rating:

Staff has not found an effective rating that can be used and would not recommend a rating at this time. In addition, neither staff nor Chandler have been able to find a concise and clear definition of dirty fuel. However, some options for the Committee's consideration are as follows:

1. Exclude all investments in companies that roll up into the Energy Sector. This would be the most straight forward 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 Chandler to screen for that sector. 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.

Segregating a Portion of the Portfolio for Longer-Term Maturities:

Although staff does not recommend investing in longer-term maturities at this time due to the relatively flat yield curve, staff does recommend updating the investment policy to allow the purchase of longer-term maturities up to 10 percent of the portfolio pursuant to California Government Code Section 53601. This would modify section 9.4 and add 9.5 to allow up to 10 percent of the portfolio to be held in Bonds issued by the City or component unit of the City, U.S. Treasuries, and U.S. Agencies. Staff recommends maturities up to 10 years for U.S. Treasuries and U.S. Agencies. For Bonds issued by the City or component unit of the City, staff recommends up to the maximum maturity subject to City Council approval. Section 10.1.10 Municipal Bonds would also need to be modified as the maximum maturity would be addressed in the new section 9.5.

Staff would also recommend separating these longer-term investments from some of the portfolio's reporting requirements similar to how the SRPC bonds were handled, and maintaining the benchmarks we currently have in place.

Additional Recommendations:

There are a few areas in the Policy that staff would like to clean up, such as updating "Supra National" to "Supranational" and a correction to the rating for Supranational Securities, which is currently in the Policy as "AA-/Aa-", and it should be "AA/Aa". These changes would be on Page 13 of the Policy and Page 2 of Exhibit A to the Policy.

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 November/December.

PJK/SN/5/FIN
541-10-31-18M

- Attachments:
1. Draft Annual Report of the Investment Review Committee to the City Council
 2. Bloomberg Chart—Spread between the 5-year and 10-year Treasury



CITY OF MOUNTAIN VIEW

MEMORANDUM

Investment Review Committee

DATE: TBD, 2018

TO: City Council

FROM: Ken S. Rosenberg, Chair, Investment Review Committee
Patty J. Kong, Finance and Administrative Services Director

SUBJECT: **Annual Report of the Investment Review Committee for Fiscal Year 2017-18**

INTRODUCTION

The Investment Review Committee (Committee or IRC) convened on October 31, 2018 for its annual review of the City's investment portfolio for Fiscal Year 2017-18. This report contains the Committee's findings and recommendations regarding the City's portfolio and the portfolio's management program as required by [City Council Policy B-2, Investment Policy](#) (Policy) (Exhibit 1). Acceptance of this report by the City Council constitutes voluntary compliance with California Government Code Section 53646(a)(2), which states that "the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting."

BACKGROUND

Section 14.3 of the Policy requires the establishment of an Investment Review Committee comprised of the members of the Council Finance Committee (CFC) and two public members with expertise in the area of fixed-income investments appointed by the City Council. The public members appointed by the City Council are Steven Permut, Vice President, Senior Portfolio Manager, and Director of Municipal Investments for American Century Investment Management, Inc. (appointed June 28, 2005), and a vacant position as Janice Phan, Corporate Treasurer for Lumentum, formerly Corporate Treasurer for LinkedIn, (appointed September 13, 2016) recently advised staff of her resignation from the Committee. The CFC is comprised of Councilmembers John McAlister and Ken S. Rosenberg, Chair of the IRC, and Vice Mayor Lisa Matichak.

The purpose of the IRC is to provide oversight and an objective assessment of the City's investment portfolio and related matters. It is required to meet annually to review and discuss portfolio management matters with the City's external investment advisor, the City Manager, and the Finance and Administrative Services Director. All Committee and City Councilmembers receive monthly and quarterly investment portfolio status reports. A primary function of the IRC is to annually report their findings and any policy recommendations regarding the investment portfolio to the City Council. On October 31, 2018, the IRC and other required parties met and reviewed the status of the portfolio presented by the investment advisor and the Finance and Administrative Services Director, and considered other matters discussed in this report. This report presents the consensus findings and recommendations of the IRC from that meeting. Detailed information is included in this report summarizing the portfolio's performance and Policy compliance over the past fiscal year as well as its status at fiscal year-end.

(Add discussion of any changes to the investment policy dependent upon discussion of the Committee at its meeting on October 31, 2018.)

ANALYSIS

Portfolio

Performance Requirements

The Policy requires the portfolio be managed such that it closely reflects that of a segment of the securities market with characteristics similar to the City's investment objectives of safety, liquidity, and yield. Evaluation of the portfolio's financial performance and Policy compliance is done by comparison to a published index referred to in the Policy as the "benchmark index." The Policy specifies the investment objective is to earn a total time-weighted rate of return over a market cycle that equals the total time-weighted rate of return of the benchmark index. The benchmark index for the portfolio is a blend of three published Merrill Lynch indices weighted as follows: 10 percent three-month Treasuries, 10 percent six-month Treasuries, and 80 percent one- to five-year Governments which is a composite of Treasury and Agency securities.

In addition to earning a market rate of return, there are several other criteria, primarily aimed at minimizing investment risk, which are used in evaluating portfolio management and compliance with the Policy. These criteria include the following:

- Investing only in securities with very high credit quality as permitted by the Policy.

- Diversity requirements that limit the percentage of the portfolio that can be invested in any one type or issuer of a security.
- Target duration requirements that limit the portfolio's risk exposure to changes in market interest rates.
- Limits on the maximum maturity of individual investments.

Evaluation of Portfolio Performance

A 10-year history of the portfolio's average duration and twelve month total rate of return (TRR) compared to the benchmark index referred to above is as follows:

Fiscal Year Ending June 30	Average Duration		TRR	
	City	Benchmark	City	Benchmark
2018	1.96	1.94	0.21	0.15
2017	2.02	2.02	-0.03	-0.12
2016	1.99	1.99	1.85	1.86
2015	2.04	2.04	1.11	1.10
2014	2.10	2.09	1.10	1.09
2013	2.05	2.11	0.07	0.05
2012	1.99	2.00	1.90	1.77
2011	1.95	1.92	1.84	1.76
2010	1.96	1.99	3.33	3.39
2009	1.92	1.97	5.39	5.47

The Policy requires that portfolio duration not exceed a maximum deviation of ± 15 percent from the benchmark duration. The portfolio must be rebalanced quarterly within ± 3 percent of the benchmark. These objectives were met throughout the fiscal year and the portfolio was managed within ± 3 percent for 10 out of the 12 months of the fiscal year. The average duration of the City's portfolio, excluding the Shoreline Bonds as approved by City Council, during this period was 1.96, slightly higher than the average benchmark duration of 1.94.

In Fiscal Year 2017-18, the City's TRR was better than the benchmark by six basis points. The annualized TRR of the portfolio compared to the benchmark since inception (August 31, 1995) is 3.65 percent and 3.60 percent, respectively. The portfolio generally tracks reasonably close to the benchmark and has outperformed the benchmark 7 of the past 10 years. The TRR is a measure of the portfolio's performance over a given period

of time. It includes interest earnings, and realized and unrealized gains and losses in the portfolio. Yield measures interest earned on the portfolio.

The City does not actively manage its investments with frequent buy and sell transactions but generally holds securities to maturity. While rising interest rates reduce the market value of portfolio securities acquired when rates were lower, market-value losses are not realized when securities are held to maturity.

Investment returns have suffered since the great recession as the Federal Reserve has held short-term interest rates at historical lows in order to support growth in the economy. During the past two fiscal years, 2016-17 and 2017-18, the Federal Reserve increased rates three times each year (December 2016 and 2017, March 2017 and 2018, and June 2017 and 2018). While rates are still low, the securities that have matured during this past fiscal year have been reinvested at higher interest rates.

A 10-year history of the average portfolio, the interest earned and the yield is as follows (dollars in millions):

Fiscal Year Ending June 30	Average Portfolio	Interest Earned	Yield
2018	\$585.8	\$ 9.3	1.58%
2017	454.6	5.8	1.27%
2016	407.5	4.7	1.16%
2015	373.0	4.2	1.14%
2014	343.7	4.3	1.26%
2013	306.9	4.9	1.59%
2012	288.6	5.9	2.05%
2011	252.9	7.0	2.76%
2010	262.0	9.0	3.46%
2009	288.6	11.1	3.83%

The portfolio's yield for the fiscal year ending June 30, 2018 was 1.58 percent on an average portfolio of \$585.8 million, returning approximately \$9.3 million, which was used during the fiscal year to fund the services and programs provided by the City. This compares to the prior fiscal year ending June 30, 2017, in which the portfolio's yield was 1.27 percent on an average portfolio of \$454.6 million, returning approximately \$5.8 million. Over the past 10 years, the Interest Yield was as high as 3.83 percent with \$11.1 million in interest earned. During this same time period, the size of the average portfolio has increased, more than doubled, from \$288.6 million to \$585.8 million.

Portfolio Value, Composition, and Diversification

As of June 30, 2018, the City's portfolio was composed of investments in the following types of securities, shown here with comparison to the Policy limit (dollars in millions):

	<u>Market Value</u>	<u>Cost Value</u>	<u>Cost Value as Percent of Total</u>	<u>Policy Limit</u>
Treasuries	\$ <u>253.9</u>	<u>257.0</u>	<u>40.3%</u>	Unlimited, Minimum 25%
Agencies				
FHLB	68.0	69.7	10.9%	25.0%
FHLMC	43.2	43.5	6.8%	25.0%
FNMA	<u>54.5</u>	<u>55.5</u>	<u>8.7%</u>	25.0%
Total – Agencies	<u>165.7</u>	<u>168.7</u>	<u>26.4%</u>	50.0%
LAIF*	<u>100.8</u>	<u>100.8</u>	<u>15.8%</u>	20.0%
Corporate Notes				
Apple, Inc.	6.9	6.9	1.1%	5.0%
Berkshire Hathaway	7.0	7.1	1.1%	5.0%
Chevron Corp.	7.9	7.9	1.2%	5.0%
Colgate-Palmolive	5.4	5.5	0.9%	5.0%
Exxon Mobil	5.9	6.0	0.9%	5.0%
Microsoft	5.8	6.0	0.9%	5.0%
Toyota Motor Corp.	5.4	5.6	0.9%	5.0%
US Bank	4.9	5.0	0.8%	5.0%
Walmart	<u>4.9</u>	<u>4.9</u>	<u>0.8%</u>	5.0%
Total – Corporates	<u>54.1</u>	<u>54.9</u>	<u>8.6%</u>	15.0%
Supranationals				
IBRD	17.7	18.1	2.8%	5.0%
IFC	11.2	11.4	1.8%	5.0%
IADB	<u>17.5</u>	<u>17.8</u>	<u>2.8%</u>	5.0%
Total – Supranationals	<u>46.4</u>	<u>47.3</u>	<u>7.4%</u>	10.0%
Municipal Bonds**	8.3	7.7	1.2%	
U. S. Bank Balance	0.1	0.1	0.0%	
Accrued Interest	<u>2.8</u>	<u>-0-</u>	<u>0.0%</u>	
Total Holdings	632.1	636.5		
City Bank Balance	<u>-0-</u>	<u>2.0</u>	<u>0.3%</u>	
Total Portfolio	<u>\$632.1</u>	<u>638.5</u>	<u>100.0%</u>	

* Local Agency Investment Fund managed by the State Treasurer.

** Municipal bonds issued by the City are permitted investments when approved by Council.

The total portfolio increased to \$638.5 million (cost value), \$632.1 million market value, compared to \$535.0 million and \$432.7 million at the end of Fiscal Years 2016-17 and 2015-16, respectively. Fiscal Year 2016-17 was the first time the City's portfolio has reached over \$500 million, and is now over \$600 million.

The investment in Corporate Notes is being managed by the external investment advisor, Chandler Asset Management, and began in July 2013. As of June 30, 2018, the portfolio held \$54.9 million (cost value) in Corporate Notes. The benchmark index used for Corporate Notes is the Merrill Lynch 1-5 year AAA-AA US Corporate Index. As of June 30, 2018, the Corporate Note segment of the portfolio TRR was 0.32 percent compared to the benchmark of 0.07 percent. Corporate Notes are approximately 8.6 percent of the portfolio (up to 15 percent is allowed per the Policy).

Three years ago, the Committee recommended, and the City Council approved, adding the Supranational security asset class as a permitted investment with certain limitations. As of June 30, 2018, the portfolio held \$47.3 million (cost value) in Supranational securities or about 7.4 percent of the portfolio (up to 10 percent is allowed per the Policy).

The portfolio investments above represent the cash assets of the various funds and reserves of the City. Most of the City's portfolio is budgeted or obligated for specific purposes such as capital improvement projects, operating budgets, liabilities, and commitments and reserves. Unobligated balances in each fund were presented to Council during the Fiscal Year 2018-19 budget process and are included in the Fiscal Year 2018-19 Adopted Budget. Fund ownership of portfolio assets are as follows (cost value and dollars in millions):

General Fund, Including Reserves	\$139.9	21.9%
Restricted Funds (Utility and Special Purpose Funds)	200.4	31.4%
Debt Service Funds	0.1	0.0%
Capital Projects	221.7	34.7%
Internal Service (Insurance Reserves and Internal Operations)	45.9	7.2%
Trust and Agency Funds	<u>30.5</u>	<u>4.8%</u>
Total Portfolio	<u>\$638.5</u>	<u>100.0%</u>

The City began depositing funds into the California Employer's Retirement Benefit Trust (CERBT) Fund in February 2009 for the City's obligation of retirees' health benefits. The CERBT offers three investment strategy options, Strategy 1 being the least conservative with the highest estimated return and Strategy 3 being the most conservative with the lowest estimated return. Agencies are allowed to choose which strategy option to place funds. The City currently participates in Strategy 2 as

approved by the Committee and Council, in order to preserve the balance in the trust. The retirees' health valuation is updated every two years as required by Generally Accepted Accounting Principles (GAAP). The valuation was most recently updated as of July 1, 2017 using the discount rate for Strategy 2 of 6.73 percent (at the time the valuation was complete). The valuation also provided information using both a 6.5 and 6.25 percent discount rate. For Fiscal Year 2018-19, the 6.5 percent discount rate is used in order to provide a margin for adverse deviation with a projected liability of \$151.3 million as of July 1, 2018. The balance in the trust as of June 30, 2018 is \$125.2 million (including interest earned, net of administrative expenses), or is 82.8 percent funded.

In addition, as anticipated, the CERBT has reduced its expected long-term annualized rate of Investment return from 7.28 percent to 7.01 percent, a reduction of 27 basis points. As a result of this action by CERBT, the City's discount rate is recommended to be reduced to 6.25 percent for Fiscal Year 2019-20. Staff presented this information to the Council Finance Committee (CFC) on March 27, 2018 and the CFC approved the recommendation.

Findings and Observations

(Comments to be added after October 31, 2018 meeting.)

Internal Control and Reporting

A significant process of internal control, oversight, and reporting is set out in the Policy. Additional controls and reporting beyond Policy requirements are also employed. All Policy-required controls, reports, and meetings have been complied with during the fiscal year. The control and oversight process encompasses the activities outlined below:

- Monthly internal investment status and strategy meetings between the Finance and Administrative Services Director and the Assistant Finance and Administrative Services Director/Investment Officer.
- Monthly portfolio reports submitted by the Finance and Administrative Services Director and the investment advisor to the City Council, the IRC, and others.
- Quarterly meetings between the Finance and Administrative Services Director and the external investment advisor, with the City Manager attending semiannually (as required by Policy), to review economic indicators, portfolio status, and Policy compliance with related reports distributed to the City Council and the Committee.

- Annual meeting of the Committee to review and discuss portfolio status and management, the Policy, and Policy compliance.
- Submission of an annual report to the City Council from the Committee and Finance and Administrative Services Director containing the findings and recommendations of the Committee.

In addition, the City's external auditors annually review internal controls on portfolio transactions, including segregation of duties between staff, controls on access to funds, and compliance with State laws regarding public agency investing as part of their annual audit of the City's financial statements. No finding of a material weakness in internal controls is noted.

Section 6 of the Policy addresses Social Responsibility as an objective of the Policy and pertains to investments in banker's acceptances, medium-term corporate notes, and certificates of deposit. The policy encourages applicable investments to be made in entities that support social and environmental concerns and community investment. Investments in companies that manufacture cigarettes and firearms as identified by the Investors Responsibility Research Center are prohibited. As of June 30, 2018, the City was in compliance with the socially responsible investing provisions of the Policy.

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 Policy. This is done to manage cash flow and to minimize the risk of interest rate movements over time. In a period of declining interest rates, this approach results in the average portfolio yield and market value exceeding current market rates due to holdings of prior year investments yielding above-market interest rates. In periods of rising interest rates, however, the opposite occurs. Securities purchased in prior years with interest rates below current market rates results in market value losses compared to the cost of securities. Gains and losses are considered as "paper" impacts because the City generally does not sell securities before they mature and receives the full value of invested principal at maturity. However, at fiscal year-end, GAAP requires gains or losses in portfolio market value to be recorded as revenues or expenditures.

The 2017-18 fiscal year-end market value (plus accrued interest) of the portfolio was lower than the cost value by approximately 0.69 percent or \$4.4 million. In comparison, the 2016-17 fiscal year-end market value (plus accrued interest) of the portfolio was higher than the cost value by approximately 0.48 percent or \$2.5 million. GAAP requires fiscal year-end portfolio gains to be treated as revenue and fiscal year-end portfolio losses to be expensed. Gains or losses are allocated to each fund based on each fund's share of the portfolio balance, the same manner that interest is credited. Gain

entries increase fund balances reported in the fiscal year-end financial statements and loss entries reduce reported fund balances. Neither have an effect on the balances available for budgetary purposes.

Committee Discussion

At the October 31, 2018 meeting, the Committee discussed the following aspects of the portfolio *(To be updated with discussion by the Committee)*:

- Social responsibility rating
- Segregating a portion of the Portfolio for longer-term maturities

RECOMMENDATIONS

Recommendations from October 31, 2018 *(To be updated if any recommendations are to be made by the Committee)*:

-

CONCLUSION

The Councilmembers of the Committee would like to acknowledge and thank Committee member Steven Permut for his 13 years of service and Janice Phan for her 2 years of service, and for their participation, advice, perspective, and contributions.

The Committee concludes the City's portfolio has been competently administered with no Policy violations over the past fiscal year.

~~KSR PJK/creating NEW document/FIN~~
~~546-10-24-17M-E~~

Exhibit: 1. City Council Policy B-2, Investment Policy

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.

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- 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.

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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

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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.

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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

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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.

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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.

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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

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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.

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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.

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- 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.

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- 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.

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- 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 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 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 National securities. The maximum maturity of Supra 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.

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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.

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- 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

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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.

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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.

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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

CNL POL/B02-CP

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.

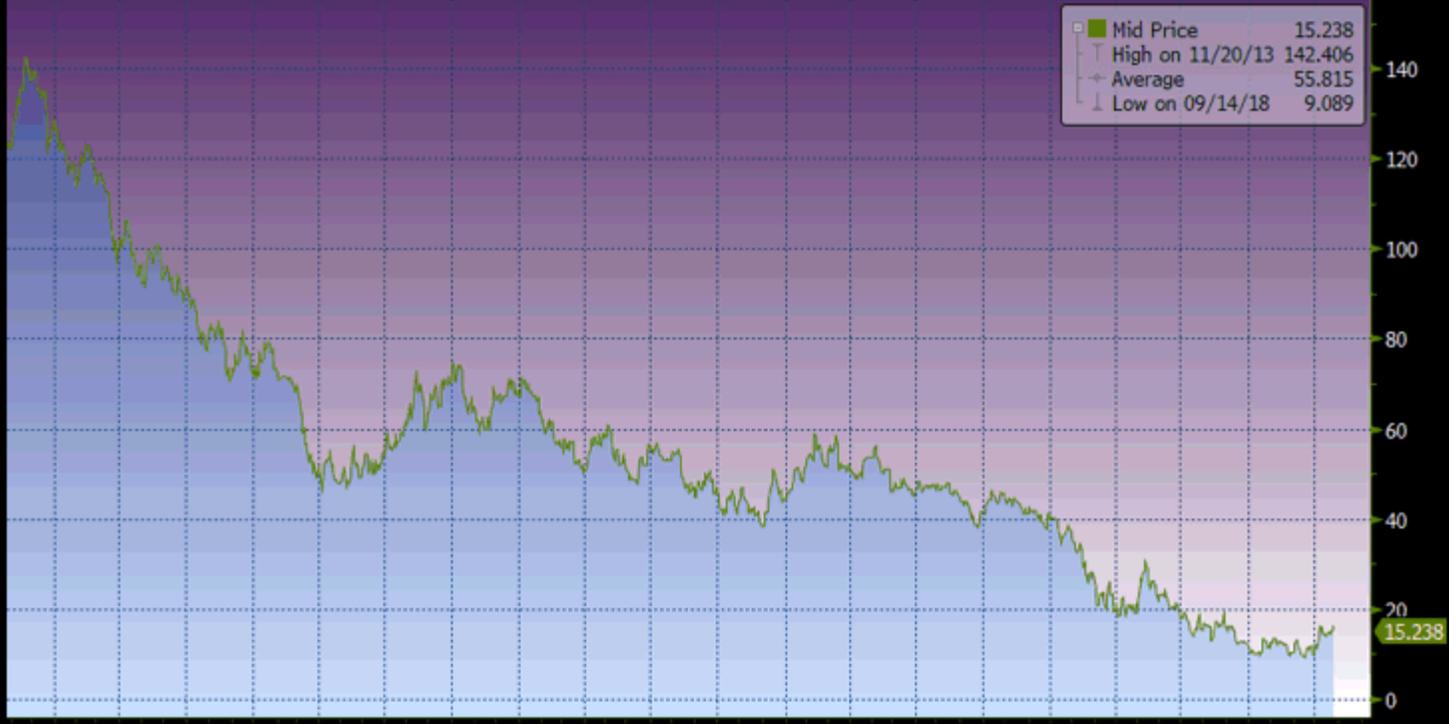
<u>Type</u>	<u>Conditions</u>	<u>Rating</u>	<u>Limits</u>	<u>Maturity</u>
U.S. Treasury Bills, Notes, and Bonds	Fixed coupons, fixed maturity dates, no CMOs.	N/A	25% Minimum	5 Years
U.S. Government Agency Issues (e.g., F.N.M.A., G.N.M.A., etc.)	Fixed coupons, fixed maturity dates, no CMOs.	N/A	Total 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

<u>Type</u>	<u>Conditions</u>	<u>Rating</u>	<u>Limits</u>	<u>Maturity</u>
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 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 rating agencies	10% of Portfolio	5 years

CNL POL/B02-CP-Exh A

GRAB

USYC5Y10 Index 95) Compare 96) Actions 97) Edit Line Chart
10/25/2013 - 10/25/2018 Mid Line USD Mov Avgs Key Events
1D 3D 1M 6M YTD 1Y 5Y Max Daily Table Chart Content



2014 2015 2016 2017 2018
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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