



**COUNCIL FINANCE COMMITTEE/
INVESTMENT REVIEW COMMITTEE**

AGENDA

NOTICE AND AGENDA

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

1. CALL TO ORDER

- 2. ROLL CALL** – Committee members Margaret Abe-Koga, Lisa Matichak, Steven Permut, Janice Phan, and Chair Ken Rosenberg.

3. MINUTES APPROVAL

Minutes for the October 18, 2016 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 – None.

6. NEW BUSINESS

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

Presentation by Bill Dennehy 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 REVIEW 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 2016-17 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/1/FIN
540-09-07-17A-E

cc: *San Jose Mercury News*

Mountain View Voice

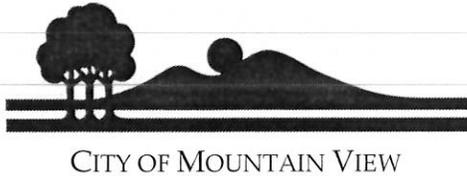
City Council, CM, ACM, CA, FASD, AFASD, File

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 – TUESDAY, OCTOBER 18, 2016
PLAZA CONFERENCE ROOM AT CITY HALL – 500 CASTRO STREET
3:30 P.M.

1. **CALL TO ORDER**

Chair Rosenberg called the meeting to order at 3:31 p.m.

2. **ROLL CALL**

Chair Rosenberg welcomed new public member Janice Phan, Corporate Treasurer for LinkedIn.

Present: Committee members John Inks, John McAlister, Steven Permut, Janice Phan, and Chair Ken Rosenberg.

Absent: None.

3. **MINUTES APPROVAL**

Resident Donald Letcher indicated that on Page 4 of the minutes on the Supranational securities that were recommended by Council, government required that these be rated AA or better. He stated that members of the Committee recommended that the City policy be reduced to AA-/Aa. Mr. Letcher has a problem with recommending securities that are rated less than the minimum government requirement. Finance and Administrative Services Director Patty Kong clarified that the government code allows for A-rated Supranational securities. The City's policy is more restrictive than the State of California code.

Motion – M/S Inks/McAlister – Carried 5-0 – Approve the minutes for the Special Meeting of October 20, 2015.

4. **ORAL COMMUNICATIONS FROM THE PUBLIC**

Donald Letcher spoke of his concern about the Shoreline Regional Park Committee (SRPC) budget. He is directing his concern to the Council Finance Committee.

The SRPC needs to have a separate budget, not just a separate fund. He thinks it is wrong to intermingle the funds. The SRPC loses its importance.

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 discussed the various reports, including employment, inflation, consumer confidence, economic activity, housing, manufacturing, Gross Domestic Product (GDP), and bond yields. Chandler expects the Federal Reserve will raise rates one time this year, by 25 basis points, in December. The economic data needs to get materially worse in order for them to not tighten. He then presented Chandler's information on the City's portfolio. He discussed the objectives, compliance, account profile, sector distribution, duration distribution, maturity distribution, and performance. He and staff answered questions from the Committee. The investment objective is always, in order of priority, safety, liquidity, and return.

Mr. Dennehy believes the risk of a recession in the next six months to be extremely low, and growth over the next 10 years will be lower than normal.

Chair Rosenberg asked if the City purchased the Microsoft note at par when it was issued. Mr. Dennehy responded it was purchased on the secondary market.

Public comments: Mr. Letcher asked whether the SRPC bonds were included in the calculations for the report. If so, the results would be skewed. Mr. Dennehy stated the bonds were excluded. Director Kong stated the City Council had approved the purchasing and holding of the bonds in the City's portfolio. Government code allows purchasing bonds maturing beyond five years if approved by the governing body. SRPC is not included in the rate of return calculations so that the portfolio can be more accurately compared to the benchmark. Chandler manages the corporate note program but does not help with the management of the SRPC bonds. The City portfolio holds the bonds until maturity.

6.2 REPORT FROM INVESTMENT REVIEW COMMITTEE

Director Kong reviewed the portfolio results as of June 30, 2016, Fiscal Year 2015-16, and presented the highlights of the report.

The corporate notes program is currently at approximately 9.9 percent of the portfolio. The policy allows up to 15 percent, but direction by the Committee was to hold at 10 percent. Director Kong asked the Committee if they are comfortable going to 15 percent as allowed by policy. There was discussion, and the Committee authorized staff to go up to 15 percent.

Motion—M/S McAlister/Inks—Carried 5-0—Reference in the report that the Committee authorized increasing the allowance to purchase corporate notes to 15 percent.

The GE corporate note, as advised at the last meeting, was downgraded by Moody's. The investment policy requires meeting the policy guidelines at the time of investment; if a downgrade occurs before maturity then staff reviews with the outside investment advisor to decide whether to hold or sell. The decision was to hold. Recently, another ratings agency, Fitch, began rating the corporate note with an AA rating, and therefore, it is once again within the policy guidelines. The maturity is within a year.

Also noted in the report was the addition of the Supranational security class. A second security was purchased on the same day as this meeting.

There were no violations to the Investment Policy to report.

Director Kong asked the Committee if there were any comments they wanted to add to the report. The report will be revised with any comments and reviewed with the Chair and submitted to the City Council in the November—December time frame.

Public comments: Mr. Letcher asked about the amount the City earned comparing last year to this year. Director Kong responded that earnings for last year were \$4.2 million, and this year was \$4.7 million. Mr. Letcher asked if the earnings comparison could be added to the report so the public can be informed. The Committee agreed about adding the comparison to the report.

Committee member Inks wanted more information about the Strategies of the California Employers' Retiree Benefit Trust (CERBT). Director Kong explained that due to the City's funding level (70 percent to 75 percent of the liability is funded), it was prudent to move to Strategy 2 which is more conservative. City Manager Rich stated that a sentence could be added to the report discussing Strategy 1 versus Strategy 2, and the City selected the more conservative approach.

Director Kong stated that there were not any additional recommendations to the Investment Policy.

6.3 INVESTMENT OF LIBRARY ENDOWMENT FUNDS

Director Kong first gave a brief background of the \$400,000 endowment the Library received. At the September 13, 2016 Council meeting, the Council accepted the donation from the Minor Trust. It allows for 75 percent of the investment earnings to be used for Library materials or programs at the discretion of the Library Services Director. As Vice Mayor, Chair Rosenberg referred this item to the Investment Review Committee for recommendations on investing the endowment. Discussion followed. Director Kong asked for a vote for the record to add to the investment report.

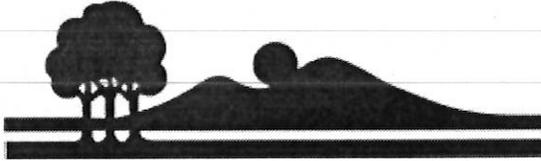
Motion—M/S Inks/McAlister—Carried 5-0—Recommend that the Library donation be kept in the City portfolio and invested in the same way as the rest of the portfolio. Performance and payout to be segregated in a separate account.

7. COMMITTEE/STAFF COMMENTS, QUESTIONS, COMMITTEE REPORTS

None.

8. ADJOURNMENT

The meeting was adjourned at order at 4:26 p.m.



CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative
Services Department

DATE: September 7, 2017

TO: Investment Review Committee

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

VIA: Daniel H. Rich, City Manager

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 supported staff's recommendation to allow up to 15.0 percent of the portfolio for the Corporate Note Program, as allowed in the Policy. As of June 30, 2017, Corporate Notes are 9.4 percent of the portfolio. Although the total in Corporate Notes increased from \$37.3 million to \$50.5 million, the portfolio has also increased. The Committee also discussed investment of the \$400,000 Library donation endowment in which 75.0 percent of investment earnings may be used for Library materials or programs. After discussing options and limitations, the Committee recommended maintaining the endowment in the City's pooled investment portfolio, segregating the endowment and interest earned in a separate reporting account. As of June 30, 2017, the endowment earned \$3,432 so for Fiscal Year 2017-18, \$2,574 is available for Library materials or programs.

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

RECOMMENDATION - No changes to the Policy are recommended at this time.

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 October/November.

Attachments: 1. Draft Annual Report of the Investment Review Committee to the City Council



CITY OF MOUNTAIN VIEW

MEMORANDUM

Investment Review Committee

DATE: TBD, 2017

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 2016-17

INTRODUCTION

The Investment Review Committee (Committee or IRC) convened on September 7, 2017 for its annual review of the City's investment portfolio for Fiscal Year 2016-17. 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 Janice Phan, Corporate Treasurer for Lumentum, formerly Corporate Treasurer for LinkedIn, (appointed September 13, 2016). The CFC is comprised of Councilmembers Margaret Abe-Koga and Lisa Matichak, and Mayor Ken S. Rosenberg, Chair of the IRC.

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 recommendations regarding the management of the investment portfolio to the City Council. On September 7, 2017, 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 September 7, 2017.)

PORTFOLIO PERFORMANCE

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 duration and total rate of return (TRR) compared to the benchmark index referred to above is as follows:

Fiscal Year Ending June 30	Duration		TRR	
	City	Benchmark	City	Benchmark
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
2008	1.87	1.88	7.38	7.29

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 11 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 2.02, matching the average benchmark duration of 2.02.

In Fiscal Year 2016-17, the City's TRR was better than the benchmark by nine basis points. The annualized TRR of the portfolio compared to the benchmark since inception (August 31, 1995) is 3.81 percent and 3.76 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 fiscal year, the Federal Reserve increased rates three times (December 2016, March 2017, and June 2017). While rates are still very 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
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%
2008	286.2	12.0	4.18%

The portfolio's yield for the fiscal year ending June 30, 2017 was 1.27 percent on an average portfolio of \$454.6 million, returning approximately \$5.8 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, 2016, in which the portfolio's yield was 1.16 percent on an average portfolio of \$407.5 million, returning approximately \$4.7 million. Over the past 10 years, the Interest Yield was as high as 4.18 percent with \$12.0 million in interest earned. During this same time period the size of the average portfolio has increased from \$286.2 million to \$454.6 million.

This current market condition has resulted in the IRC recommending, and the City Council approving, an amendment to the Policy allowing longer maturities and higher level of investments in Corporate Notes. 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, 2017, the portfolio held \$50.5 million 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, 2017, the Corporate Note segment of the portfolio TRR was 0.49 percent compared to the benchmark of 0.53 percent. Corporate Notes are approximately 9.4 percent of the portfolio (up to 15 percent is allowed per the Policy).

Two 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, 2017, the portfolio held \$28.0 million in Supranational securities or about 5.2 percent of the portfolio (up to 10 percent is allowed per the Policy).

DRAFT

Portfolio Value, Composition, and Diversification

As of June 30, 2017, 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	\$185.7	185.2	34.6%	Unlimited, Minimum 25%
Agencies				
FHLB	72.4	72.8	13.6%	25.0%
FHLMC	40.6	40.6	7.6%	25.0%
FNMA	<u>63.5</u>	<u>63.5</u>	<u>11.9%</u>	25.0%
Total – Agencies	176.5	176.9	33.1%	50.0%
LAIF*	78.3	78.3	14.6%	20.0%
Corporate Notes				
Apple, Inc.	7.0	6.9	1.3%	5.0%
Berkshire Hathaway	7.1	7.1	1.3%	5.0%
Chevron Corp.	5.6	5.5	1.0%	5.0%
Colgate-Palmolive	3.0	3.0	0.6%	5.0%
Exxon Mobil	6.0	6.0	1.1%	5.0%
General Electric Co.	4.4	5.0	0.9%	5.0%
Microsoft	6.0	6.0	1.1%	5.0%
Toyota Motor Corp.	3.1	3.1	0.6%	5.0%
US Bank	3.0	3.0	0.6%	5.0%
Walmart	<u>5.0</u>	<u>4.9</u>	<u>0.9%</u>	5.0%
Total – Corporates	50.2	50.5	9.4%	15.0%
Supranationals				
IBRD	18.1	18.1	3.4%	5.0%
IFC	5.8	5.9	1.1%	5.0%
IADB	<u>3.9</u>	<u>4.0</u>	<u>0.7%</u>	5.0%
Total – Supranationals	27.8	28.0	5.2%	10.0%
Municipal Bonds**	9.0	8.1	1.5%	
U. S. Bank Balance	0.2	0.2	0.1%	
Accrued Interest	<u>2.0</u>	<u>-0-</u>	<u>0.0%</u>	
Total Holdings	529.7	527.2		
City Bank Balance	<u>-0-</u>	<u>7.8</u>	1.5%	
Total Portfolio	<u>\$529.7</u>	<u>535.0</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 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 2017-18 budget process and are included in the Fiscal Year 2017-18 Adopted Budget. Fund ownership of portfolio assets are as follows (cost value and dollars in millions):

General Fund, Including Reserves	\$121.8	22.8%
Restricted Funds (Utility and Special Purpose Funds)	186.3	34.8%
Debt Service Funds	0.1	0.0%
Capital Projects	153.4	28.7%
Internal Service (Insurance Reserves and Internal Operations)	43.7	8.2%
Trust and Agency Funds	<u>29.7</u>	<u>5.5%</u>
Total Portfolio	<u>\$535.0</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 discount rate for Strategy 2 is 6.73 percent. The retirees' health valuation is updated every two years as required by Generally Accepted Accounting Principles (GAAP). The projected liability is \$137.4 million (based on Strategy 2 and the most recent July 1, 2015 valuation). The balance in the trust as of June 30, 2017 is \$110.7 million (including interest earned, net of administrative expenses), or is 80.5 percent funded. Staff is currently in the process of updating the valuation as of July 1, 2017 and will review an alternative discount rate option.

FINDINGS AND OBSERVATIONS

(Comments to be added after September 7, 2017 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 was 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, 2017, 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 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. In comparison, the 2015-16 fiscal year-end market value (plus accrued interest) of the portfolio was higher than the cost value by approximately 1.62 percent or \$6.8 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 as 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 September 7, 2017 meeting, the Committee discussed the following aspects of the portfolio (*Comments to be added after September 7, 2017*):

-
-

RECOMMENDATIONS

Recommendations from September 7, 2017 (*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 12 years of service and Janice Phan for volunteering to serve on the Committee this past year, 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.

DRAFT

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

- 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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

- 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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

- 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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

- 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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

- 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

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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.

CITY COUNCIL POLICY

SUBJECT: INVESTMENT POLICY

NO.: B-2

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

