

**MEMORANDUM**

Finance and Administrative Services Department

DATE: December 16, 2025

TO: Honorable City Council

FROM: Chris Clark, Chair, Investment Review Committee
Derek Rampone, Finance and Administrative Services Director

SUBJECT: Fiscal Year 2024-25 Investment Review Committee Annual Report

INTRODUCTION

The Investment Review Committee (IRC) convened on October 22, 2025, for its annual review of the City's investment portfolio for Fiscal Year 2024-25. This memorandum contains the IRC'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 A). Acceptance of this report by the City Council constitutes voluntary compliance with California Government Code Section 53646(a)(2), which states that: "[T]he 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. Any change in the policy shall also be considered by the legislative body of the local agency 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, Retired Vice President, Senior Portfolio Manager, and Director of Municipal Investments for American Century Investment Management, Inc. (appointed June 28, 2005); and Douglas Radtke, CPA, Radtke & Company (appointed December 8, 2020). The CFC is comprised of Councilmembers Chris Clark (Chair of the IRC), Lucas Ramirez, and Vice Mayor Emily Ann Ramos.

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 IRC members and City Councilmembers receive 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 22, 2025, the IRC and other required parties met and reviewed the status of the portfolio presented by the investment advisor and Finance staff 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.

ANALYSIS

Portfolio

Performance Requirements

The Policy requires the portfolio be managed in accordance with California Government Code statutes that govern the investment of public funds. The City's investment objectives are safety, liquidity, and return. Evaluation of the portfolio's financial performance 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 InterContinental Exchange-Bank of America-Merrill Lynch (ICE BAML) indices weighted as follows: 10% three-month Treasuries, 10% six-month Treasuries, and 80% 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.
- Diversification 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

The chart below shows the 10-year history of: (1) the portfolio's average duration; (2) the 12-month total rate of return (TRR) for the portfolio, excluding corporate holdings compared to the benchmark index referred to above; and (3) the 12-month TRR for the corporate portion of the portfolio compared to a one- to five-year U.S. Corporate-Rated AAA-AA benchmark index (it should be noted that the Shoreline Bonds are excluded from these metrics as approved by the City Council).

Fiscal Year Ended June 30	Average Duration		Portfolio TRR (excluding corporate holdings)		Corporate TRR	
	City	Benchmark	City	Benchmark	City	Benchmark
2025	1.94	1.99	5.77	5.76	6.69	6.62
2024	1.88	1.90	1.35	1.29	1.43	1.26
2023	1.88	1.85	0.62	0.59	1.61	0.48
2022	2.00	1.97	-3.38	-3.44	-3.79	-5.34
2021	2.09	2.11	0.01	-0.02	0.62	0.80
2020	1.97	1.97	4.46	4.44	6.03	5.69
2019	1.89	1.89	4.13	4.21	5.80	5.67
2018	1.96	1.94	0.21	0.15	0.32	0.07
2017	2.02	2.02	-0.03	-0.12	0.49	0.53
2016	1.99	1.99	1.85	1.86	3.14	3.31

The Policy requires that portfolio duration not exceed a maximum deviation of $\pm 15\%$ from the benchmark. The portfolio must be rebalanced quarterly within $\pm 3\%$ of the benchmark. These objectives were met throughout the fiscal year, and the portfolio was managed within $\pm 3\%$ for nine of the 12 months in the fiscal year. The average duration of the City's portfolio during this period was 1.94 years, 2.5% lower than the average benchmark of 1.99 years.

The 12-month TRR has increased significantly in Fiscal Year 2024-25. The Federal Reserve began raising the Federal Funds Target Rate in March 2022 to combat inflation. In total, the Federal Funds Target Rate was raised seven times during Fiscal Year 2022-23, once in Fiscal Year 2023-24 and none in Fiscal year 2024-25, bringing the target rate to a peak of 5.25% to 5.5%. The Federal Reserve began reducing the target in September 2024, bringing it down to 4.25% to 4.5% by the end of Fiscal Year 2024-25. Market yields remain higher when compared to the two-year period between March 2020 and February 2022, when the target rate was 0.00% to 0.25%. The sustained higher yields have increased interest earnings for the City, which is driving the positive TRR.

In Fiscal Year 2024-25, the City's TRR was higher than the benchmark by one basis point. The portfolio generally tracks reasonably close to the benchmark and has outperformed the

benchmark in nine 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 as well as realized and unrealized gains and losses in the portfolio.

The City generally buys and holds securities to maturity. Accordingly, while increasing interest rates lower the market value of portfolio securities acquired when rates were lower, market-value losses are not realized when securities are held to maturity.

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

Fiscal Year Ended June 30	Average Portfolio	Interest Earned	Average Earnings Rate
2025	\$1,018.5	\$31.3	3.07%
2024	989.2	25.1	2.56%
2023	974.2	23.8	2.45%
2022	841.9	11.3	1.35%
2021	784.0	12.1	1.55%
2020	713.9	14.9	2.09%
2019	648.1	13.3	2.06%
2018	585.8	9.3	1.58%
2017	454.6	5.8	1.27%
2016	407.5	4.7	1.16%

The portfolio's average earnings rate for the fiscal year ended June 30, 2025 was 3.07% on an average portfolio of \$1.0 billion, returning approximately \$31.3 million, which was used during the fiscal year to fund various services and programs provided by the City. This compares to the prior fiscal year ended June 30, 2024, when the portfolio's average earnings rate was 2.56% on an average portfolio balance of \$989.2 million, generating approximately \$25.1 million in investment earnings. Over the past decade, the average portfolio size has increased by approximately 2.5 times, growing from \$407.5 million to \$1.0 billion.

Portfolio Value, Composition, and Diversification

As of June 30, 2025, 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	\$605.0	\$ 595.8	56.4%	Unlimited, Minimum 25%
Agencies				
FHLB	97.8	98.1	9.3%	25.0%
FHLMC	34.8	34.7	3.3%	25.0%
FNMA	24.1	24.2	2.3%	25.0%
Total—Agencies	156.7	157.0	14.9%	50.0%
LAIF*	75.3	75.3	7.1%	20.0%
Corporate Notes				
Amazon.com, Inc.	7.9	8.0	0.8%	5.0%
Apple, Inc.	7.4	7.3	0.7%	5.0%
Bank of America	3.5	3.4	0.3%	5.0%
Berkshire Hathaway	3.0	3.3	0.3%	5.0%
Blackrock, Inc.	8.4	8.2	0.8%	5.0%
Caterpillar Inc.	3.6	3.5	0.3%	5.0%
CME Group Inc.	3.8	3.7	0.4%	5.0%
Colgate-Palmolive	3.1	3.0	0.3%	5.0%
Guardian Life	3.9	3.9	0.4%	5.0%
JP Morgan Chase	3.6	3.5	0.3%	5.0%
MassMutual	5.1	5.0	0.5%	5.0%
Meta Platforms Inc.	4.8	4.7	0.4%	5.0%
MetLife	6.0	5.7	0.5%	5.0%
Microsoft	5.2	5.1	0.5%	5.0%
Morgan Stanley	3.6	3.6	0.3%	5.0%
New York Life Global	6.0	5.9	0.6%	5.0%
NextEra Energy, Inc.	8.1	8.0	0.8%	5.0%
Northwestern Mutual	5.1	5.0	0.5%	5.0%
Procter & Gamble	10.4	10.5	1.0%	5.0%
Qualcomm Inc.	3.5	3.5	0.3%	5.0%
Toyota Motor Corp.	3.6	3.5	0.3%	5.0%
United Health	3.6	3.6	0.3%	5.0%
Visa Inc.	2.4	2.3	0.2%	5.0%
Walmart	5.5	5.8	0.6%	5.0%
Wells Fargo	3.5	3.6	0.3%	5.0%
Total—Corporates	124.6	123.6	11.7%	15.0%
Supranationals				
IBRD	38.7	38.0	3.6%	5.0%
IFC	18.6	18.8	1.8%	5.0%
IADB	27.6	27.3	2.6%	5.0%
Total—Supranationals	84.9	84.1	8.0%	10.0%
Municipal Bonds**	2.4	2.4	0.2%	

* Local Agency Investment Fund managed by the State Treasurer.

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

Money Market—US Bank	2.6	2.6	0.2%
Money Market—Principal Bank	11.2	11.2	1.1%
Interest Receivables	1.1	1.1	0.1%
Accrued Interest	<u>6.6</u>	<u>-0-</u>	<u>0.0%</u>
Total Holdings	1,070.3	1,053.1	99.7%
City Bank Balance	<u>2.9</u>	<u>2.9</u>	<u>0.3%</u>
Total Portfolio	<u>\$1,073.2</u>	<u>\$1,056.0</u>	<u>100.0%</u>

The total portfolio increased to \$1.1 billion (cost value), compared to \$1.0 billion (cost value) at the end of Fiscal Year 2023-24. The portfolio has grown significantly since Fiscal Year 2017-18, almost doubling in a seven-year period.

The City began investing in corporate notes in July 2013 and is managed by an external investment advisor, Chandler Asset Management (Chandler). As of June 30, 2025, the portfolio held \$123.6 million (cost value) in corporate notes. The benchmark index used for corporate notes is the ICE BAML 1-5 Year AAA-AA US Corporate Index. This benchmark is a higher standard as it includes investments that are not permitted under the City's Policy (e.g., corporations operating outside the U.S.). As of June 30, 2025, the corporate note segment of the portfolio TRR was 6.69% compared to the benchmark of 6.62%. Corporate notes are 11.7% of the portfolio (up to 15% is allowed per the Policy).

In Fiscal Year 2014-15, the IRC recommended, and the City Council approved, adding the Supranational security asset class as a permitted investment with certain limitations. As of June 30, 2025, the portfolio held \$84.1 million (cost value) in Supranational securities, or about 8.0% of the portfolio (up to 10% 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 2025-26 budget process and are included in the Fiscal Year 2025-26 Adopted Budget. Fund ownership of portfolio assets are as follows (cost value and dollars in millions):

General Fund, Including Reserves	\$ 200.4	19.0%
Restricted Funds (Utility and Special-Purpose Funds)	342.1	32.4%
Capital Projects	446.4	42.3%
Internal Service (Insurance Reserves and Internal Operations)	45.5	4.3%
Trust and Agency Funds	<u>21.6</u>	<u>2.0%</u>
Total Portfolio	<u>\$1,056.0</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 retirees' health valuation is updated every two years as required by Generally Accepted Accounting Principles (GAAP). The valuation was most recently updated as of June 30, 2023 using the discount rate of 5.6% and shows a projected liability of \$163.7 million as of July 1, 2023. The balance in the trust as of June 30, 2023 is \$170.1 million (including interest earned, net of administrative expenses), representing a 103.9% funded level. The next valuation is in progress and will be as of June 30, 2025.

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, Assistant Finance and Administrative Services Director, and the Principal Financial Analyst/Investment Officer.
- Quarterly meetings between the Finance and Administrative Services Director and the external investment advisor, with the City Manager or designee, 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 IRC.
- Annual meeting of the IRC to review and discuss portfolio status and management, the Policy, and Policy compliance.
- Submission of an annual report to the City Council from the IRC and Finance and Administrative Services Director containing the findings and recommendations of the IRC.

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, the production of renewable energy and sustainable agriculture, and community investment. Investments in companies that manufacture cigarettes and firearms as identified by the Investors Responsibility Research Center are prohibited. Investments in entities that engage in the direct exploration, production, refining, or marketing of fossil fuels are also prohibited. As of June 30, 2025, 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 require these unrealized gains or losses in portfolio market value to be recorded as if they were realized.

The 2024-25 fiscal year-end market value (plus accrued interest) of the portfolio was higher than the cost value (excluding the City’s bank balance) by approximately 1.6%, or \$17.2 million. The 2023-24 fiscal year-end market value (plus accrued interest) of the portfolio was lower than the cost value (excluding the City’s bank balance) by approximately 1.6%, or \$16.6 million. Gains or losses are allocated to each fund based on each fund’s share of the portfolio balance; interest is credited in the same manner. 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.

Findings and Observations

The portfolio was in compliance throughout Fiscal Year 2024-25.

IRC Committee Discussion

At the October 22, 2025 meeting, the IRC discussed the status of the investment portfolio and several recommendations related to the City’s Investment Policy.

The IRC discussed potential revisions to the Investment Policy. During public comment, public speakers requested that the City consider future updates to the Investment Policy to prohibit investments in companies involved in border and mass surveillance industries, the mass

incarceration and detention industries, and any companies that facilitate or enable violations of human rights.

IRC members confirmed with the City's investment consultant, Chandler Asset Management (Chandler), that the City currently does not hold any corporate investments in the types of companies identified in public comments. The IRC also discussed the practicality of incorporating such prohibitions into the Investment Policy. Members noted that while the intent aligns with socially responsible investing principles, enforcing such restrictions could be challenging in practice.

In addition, since corporate investments are limited to a maximum of 15% of the total portfolio and may only include corporate notes rated A or higher, the likelihood of the City investing in companies engaged in these activities is minimal.

The IRC directed staff to work with Chandler to review the list of their approved corporate notes that meet the City's investment criteria and identify whether any companies on that list may be associated with the industries or activities of concern. Staff will report back to the IRC with their findings at a future meeting. The IRC also requested that staff review the investment policies of neighboring cities to determine how they address similar social responsibility concerns.

In addition to the public comments regarding socially responsible investment restrictions, IRC Member Permut recommended a revision to Section 8.0 of the Investment Policy concerning authorized financial institutions and broker/dealers. Specifically, he suggested that the City enhance its verification process when reviewing broker/dealer qualifications by including verification of the credentials and qualifications of the auditors who perform financial statement audits for these firms.

Staff will follow up on these two recommendations from the IRC and present updates and proposed policy revisions at the next IRC meeting for further discussion and direction.

RECOMMENDATIONS

There were no changes made to the current Investment Policy. The IRC recommended that staff conduct further research regarding the social responsibility concerns raised by the public and explore potential updates to Section 8.0 of the Investment Policy related to the broker/dealer verification process.

CONCLUSION

The Councilmembers of the IRC would like to thank members Steven Permut and Douglas Radtke for their continuing service and for their participation, advice, perspective, and contributions

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

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

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 City 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 Annual Comprehensive Financial Report and include:

1.1 Funds:

- 1.1.1 General Fund.
- 1.1.2 Special Revenue Funds.

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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 Custodial 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 all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

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- 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% of the portfolio. If these funds are drawn for cash flow purposes, the 5% shall be reestablished as soon as possible.

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

5.0 INVESTMENT PERFORMANCE OBJECTIVE:

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

6.0 SOCIAL RESPONSIBILITY:

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

6.1 Social and Environmental Concerns

- 6.1.1 Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices.
- 6.1.2 Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, or sexual orientation.

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

6.2 Community Investments

- 6.2.1 Investments are encouraged in entities that promote community economic development.
- 6.2.2 Investments are encouraged in financial institutions that have a demonstrated involvement in the development or rehabilitation of low-income affordable housing.
- 6.2.3 No investment is to be made in securities of financial institutions that do not have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding.

6.3 Prohibited Investments

- 6.3.1 No investment is to be made in a company that manufactures cigarettes as identified by the Investors Responsibility Research Center.
- 6.3.2 No investment is to be made in entities that manufacture firearms as identified by the Investors Responsibility Research Center.
- 6.3.3 No investment is to be made in entities that engage in the direct exploration, production, refining, or marketing of fossil fuels.

6.4 Implementation

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

1. The City Council will consider complaints or concerns regarding any firm eligible to receive a City investment covered by these

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provisions and determine whether the firm(s) should not be considered for City investment. Upon majority vote of the City Council determining a firm(s) should not be eligible for a City investment, the firm(s) will be placed on a list maintained by staff.

2. Staff shall refer to this list prior to placing investments covered by these provisions and assure no such investments are made.
3. If the City is holding an investment in a firm that is subsequently determined by Council to be ineligible for City investment, staff shall divest of the security as quickly as practical (taking into consideration market conditions) but no later than 180 days from the date of the Council determination.
4. Staff is not required to determine the compliance of a potential investment with the objectives of this provision prior to placing an investment other than checking the list of ineligible firms in Item 2 above.

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

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

7.0 STRUCTURE AND RESPONSIBILITY:

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

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

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- 7.1.1 Responsibilities of the City Council. The City Council shall consider and adopt a written Investment Policy in accordance with Section 15 of this policy. As provided in this policy, the Council shall receive and review monthly Investment Reports.
- 7.1.2 Responsibilities of the City Manager. The City Manager is responsible for directing and supervising the Finance and Administrative Services Director. He/she is also responsible to keep the City Council fully advised of the investment portfolio and as to the financial condition of the City.
- 7.1.3 Responsibilities of the Finance and Administrative Services Director. The Finance and Administrative Services Director is appointed by the City Manager and is subject to his/her direction and supervision. The Finance and Administrative Services Director is charged with responsibility for the conduct of all Finance and Administrative Services Department functions, including the custody and investment of City funds and the development of procedures to implement this Investment Policy.

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

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

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

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

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

8.0 AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS:

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

1. Audited financial statements for the institution's three most recent fiscal years.
2. Completed financial institution or broker/dealer questionnaire.
3. A statement certifying that they have reviewed the City's Investment Policy and that all securities offered to the City shall comply fully with all provisions of the California Government Code and with this Investment Policy.

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

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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% three-month Treasuries, 10% six-month Treasuries, 80% one- to five-year Government (the Benchmark).
- 9.2 Portfolio duration shall be rebalanced within 3% 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 $\pm 15\%$ at any time.
- 9.4 The maximum stated final maturity of individual securities in the portfolio may not exceed five years. Some categories of investments are further limited as described in Section 10.0 below.

10.0 AUTHORIZED AND SUITABLE INVESTMENTS:

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

10.1 Permitted investments under this policy shall include:

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

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- 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% of the total portfolio.
- 10.1.3 Commercial paper of “prime” quality rated a minimum of P-1 by Moody’s Investor Services (Moody’s) or A-1 by Standard & Poor’s, Inc. (S&P) provided that: (a) the maturity does not exceed 180 days from the date of purchase; (b) the issuer is a corporation organized and operating in the United States with assets in excess of \$500 million; and (c) no more than 15% percent of the total portfolio is invested in commercial paper.
- 10.1.4 Banker’s acceptances of “prime” quality issued by institutions the short-term obligations of which are rated a minimum of P1 by Moody’s or A1 by S&P provided that: (a) the acceptances are eligible for purchase by the Federal Reserve System; (b) the maturity does not exceed 180 days; and (c) no more than 20% 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 “A” or equivalent by at least two of the three rating agencies (S&P, Moody’s and Fitch). No more than 15% 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.
- 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% of the total portfolio.

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

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

10.1.8 Local Agency Investment Funds (LAIF) administered by the State Treasurer’s Office. No more than 20% of the total portfolio may be invested in LAIF and Joint Powers Authority (JPA) Investment Pools combined.

10.1.9 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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- 10.1.10 Legal settlements. Any noncash financial instrument, promissory note, or other form of indebtedness acquired by the City as part of a legal settlement.
- 10.1.11 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% 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.
- 10.1.12 Supranational Securities. U.S. dollar denominated, senior unsecured, unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), the long-term obligations of which are rated at least “AA/Aa” or equivalent by at least one of the three rating agencies (S&P, Moody’s, and Fitch). No more than 10% of the total portfolio may be invested in eligible Supranational securities. The maximum maturity of Supranational securities is five years.
- 10.1.13 Joint Powers Authority (JPA) Investment Pools. Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in California Government Code Section 53601(a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the JPA. The JPA shall have retained an investment advisor that: (1) is registered or exempt from registration with the Securities and Exchange Commission; (2) has not less than five years of experience investing in the securities and obligations authorized; and (3) has assets under management in excess of Five Hundred Million Dollars (\$500,000,000). No more than 20% of the total portfolio may be invested in JPA Investment Pools and LAIF combined. No more than 10% of the total portfolio may be invested in any one JPA Investment Pool.

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

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

10.2.2 Repurchase agreements and reverse repurchase agreements.

10.2.3 Futures and options.

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

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

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

If a security in the portfolio is downgraded, the Finance and Administrative Services Director shall notify the Investment Review Committee of the downgrade.

11.0 DIVERSIFICATION REQUIREMENTS:

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

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

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

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- 11.4 No more than 25% 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% of the total debt outstanding of any issuer.
- 11.6 No more than 20% of the portfolio may be invested in banker's acceptances.
- 11.7 No more than 15% of the portfolio may be invested in commercial paper.
- 11.8 No more than 15% of the portfolio may be invested in medium-term (corporate) notes.
- 11.9 No more than 10% of the portfolio may be invested in government money market funds.
- 11.10 No more than 10% of the portfolio may be invested in insured certificates of deposit.
- 11.11 No more than 10% of the portfolio may be invested in secured time deposits.
- 11.12 No more than 10% of the portfolio may be invested in unsecured (negotiable) deposits.
- 11.13 No more than 10% 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% of the portfolio may be invested in Supranational securities.
- 11.16 No more than 20% of the portfolio may be invested in LAIF and JPA Investment Pools combined, and no more than 10% of the portfolio may be invested in any one JPA Investment Pool.

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12.0 SAFEKEEPING AND CUSTODY:

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

13.0 INTERNAL CONTROL:

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

14.0 REPORTING AND REVIEWS:

14.1 Quarterly. Investment reports for September, December, March, and June shall be submitted by the Investment Officer to the City Council and the City Manager following the end of every quarter (September 30, December 31, March 31, and June 30). These reports shall disclose the following information about the risk characteristics of the City's portfolio:

14.1.1 Cost and 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.

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- 14.1.5 Percent of portfolio maturing within one year.
- 14.1.6 Average portfolio credit quality.
- 14.1.7 Percent of portfolio with credit ratings below “AA-/Aa-” or equivalent and a description of such securities.
- 14.1.8 Listing of any transactions or holdings which do not comply with this policy or with the California Government Code.
- 14.1.9 Time-weighted total rate of return for the portfolio for the prior three 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, or designee, and the City Manager, or designee, 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 investment advisor.

- 14.3 Annual. An Investment Review Committee shall be established by the City Council. The Investment Review Committee shall include the 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, or designee, the City Manager, or designee, and the external investment advisor to review the portfolio. The Investment Review Committee shall report its findings and recommendations to the City Council.

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15.0 INVESTMENT POLICY ADOPTION:

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

Revised: January 28, 2025, Resolution No. 18962
Revised: February 27, 2024, Resolution No. 18872
Revised: December 11, 2018, Resolution No. 18286
Revised: December 8, 2015, Resolution No. 18011
Revised: October 28, 2014, Resolution No. 17897
Revised: December 4, 2012, Resolution No. 17735
Revised: November 15, 2011, Resolution No. 17658
Revised: December 7, 2010, Resolution No. 17561
Revised: December 8, 2009, Resolution No. 17458
Revised: November 18, 2008, Resolution No. 17341
Revised: December 7, 2004, Resolution No. 16956
Revised: August 3, 1999, Resolution No. 16393
Revised: July 29, 1997, Resolution No. 16143
Revised: July 30, 1996, Resolution No. 15984A
Revised: March 26, 1996, Resolution No. 15939
Revised: May 30, 1995, Resolution No. 15842
Revised: May 25, 1993, Resolution No. 15571
Revised: December 8, 1992, Resolution No. 15505
Revised: February 11, 1992, Resolution No. 15369
Revised: February 12, 1991, Resolution No. 15233
Revised: July 31, 1990, Resolution No. 15153
Revised: December 12, 1989
Effective Date: December 16, 1968, Resolution No. 8125

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ELIGIBLE INVESTMENTS AND LIMITS CRITERIA

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

No individual holding shall constitute more than 5% 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.	A or equivalent or better from 2 of 3 rating agencies.	15% of Portfolio	5 Years
Local Agency Investment Fund (LAIF)	N/A	N/A	20% of Portfolio combined with JPA Investment Pools	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.
Supranational Securities	Dollar denominated, senior unsecured, unsubordinated obligations issued or unconditionally guaranteed by the IBRD, IFC, or IADB.	AA/Aa or equivalent or better from one rating agency	10% of Portfolio	5 years
Joint Powers Authority (JPA) Investment Pools	N/A	N/A	20% of Portfolio combined with LAIF, 10% per JPA Investment Pool	On Demand