



COUNCIL REPORT

DATE: February 27, 2024
CATEGORY: Consent
DEPT.: Investment Review Committee
TITLE: **Annual Report of the Investment Review Committee for Fiscal Year 2022-23**

RECOMMENDATION

1. Accept the Annual Report of the Investment Review Committee for Fiscal Year 2022-23 (Attachment 1 to the Council report).
2. Adopt a Resolution of the City Council of the City of Mountain View Amending Council Policy B-2, Investment Policy, to be read in title only, further reading waived (Attachment 3 to the Council report).
3. Approve the Investment Review Committee’s recommendations for staff to explore other legally allowable investment types to potentially expand the City’s investment diversification.

BACKGROUND

This Council report transmits the Annual Report of the Investment Review Committee (IRC or Committee) (Attachment 1) as required by Section 14.3 of Council Policy B-2, Investment Policy ([Policy](#)). The IRC is comprised of the members of the Council Finance Committee (CFC or Committee) and two public members appointed by the City Council with expertise in the area of fixed-income investments. The two appointed public members are Steven Permut, Retired Vice President, Senior Portfolio Manager, and Director of Municipal Investments for American Century Investment Management, Inc.; and Douglas Radtke, CPA, Radtke & Company. The CFC is comprised of Councilmembers Lisa Matichak (Chair of the IRC), Lucas Ramirez, and Emily Ann Ramos. The CFC would like to express appreciation to Committee members Permut and Radtke for their advice, expertise, time, and assistance in fulfilling the responsibilities of the Committee.

The Policy requires that the IRC meet annually to review the performance, Policy compliance, and management of the City’s investment portfolio. Last year’s meeting was held on October 30, 2023 (Attachment 3—Agenda and Reports). The Committee is also required to submit an Annual Report to the City Council containing the Committee’s findings and any recommendations to amend the Policy.

Acceptance of this report by the City Council and adoption of the resolution modifying the Policy also 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. Any change in the policy shall also be considered by the legislative body of the local agency."

ANALYSIS

Staff and Chandler Asset Management (Consultant or investment advisor) reviewed the City's portfolio. The portfolio was in compliance with the Policy throughout the fiscal year. The total portfolio balance as of June 30, 2023 was \$1,016.7 million (cost value), compared to \$971.5 million the previous fiscal year.

At the October 30, 2023 meeting, the Committee discussed the overall performance of the portfolio. The City's risk profile as it relates to its investments and its investment policy was also discussed. The City's conservative approach to investments has served the City well. However, there is interest in exploring other legal investment options that could allow the City to have greater diversification amongst investments. The Committee also received additional details about the City's investments in private-placement 144A securities during the meeting.

The Committee discussed the following aspects of the Policy:

Socially Responsible Investing and Environmental, Social, and Governance Ratings

Staff researched Environmental, Social, and Corporate Governance (ESG) ratings and reported to the Committee that there have not been any significant changes to ESG since 2018, when the Committee last discussed this topic. The City's external investment advisor, Chandler Asset Management, reiterated that the ESG ratings can be inconsistent depending on which organization provides the rating. Additionally, if a particular investment receives a good ESG rating, it may still not meet the City's overall goals and objectives related to Socially Responsible Investing (SRI) or ESG. The exclusionary SRI language that is already captured in Section 6.3 of the Policy continues to serve the City well by clearly prohibiting investments that do not align with the City's character from an SRI prospective.

Joint Powers Authority Investment Pools

The Joint Powers Authority (JPA) Investment Pools are also referred to as Local Government Investment Pools (LGIPs). These are formed when cities and agencies band together to sponsor investment pools. A board is formed that oversees these investment pools, which includes

contracting with a custodian to hold the cash and an investment manager. These pools are run similarly to money market mutual funds. Since there are limits on how much can be invested in the Local Agency Investment Funds (LAIF), opening the option of investing in a JPA Investment Pool allows for additional diversification and a new opportunity for the City to manage its shortest, most liquid investments.

Expanding Investment Options in the Policy

The City's Policy is more conservative when compared with California Government Code and most neighboring cities. While this has served the City well in the past, the Committee did make recommendations for consideration, specifically asking staff to work with Chandler Asset Management to research and report back to the IRC the benefits and drawbacks of expanding investment options in the Policy to align more with California Government Code Section 53601. More specifically, the Committee is interested in looking closer at allowing corporate notes one level below the current Policy on credit-rating restrictions, Mortgage-Backed Securities, and Asset-Backed Securities. Additionally, the Committee asked staff to evaluate whether or not any current limitations on the percentage of the portfolio invested in the various investment types should be adjusted. Staff requests Council's approval of the Committee's aforementioned recommendations.

Minor Policy Language Cleanup

Staff recommended minor changes to Sections 14.1 and 14.2.

Recommendations from the October 30, 2023 meeting to update the Policy include the following:

- Add Subsections 10.1.14 and 11.16, and amend Subsections 10.1.8, 14.1, 14.2, and 14.3, adding JPA Investment Pools and other minor policy language cleanup as follows:

“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 and Joint Powers Authority (JPA) Investment Pools combined.”

“10.1.14 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 percent of the total portfolio may be invested in JPA Investment Pools and LAIF combined. No more than 10 percent of the total portfolio may be invested in any one JPA Investment Pool.”

“11.16 No more than 20 percent of the portfolio may be invested in LAIF and JPA Investment Pools combined, and no more than 10 percent of the portfolio may be invested in any one JPA Investment Pool.”

“14.1 Monthly. Monthly investment reports shall be submitted by the Investment Officer to the City Council and the City Manager. These reports shall disclose the following information about the risk characteristics of the City’s portfolio:”

“14.2 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.”

FISCAL IMPACT

The Policy modifications do not have a direct fiscal impact. Adding JPA Investment Pools will allow the City to diversify its investment portfolio, and the resulting yields will be consistent with the fluctuation in market yields. Analyzing other investment options for the IRC to consider will require staff time, including assistance from Chandler Asset Management.

ALTERNATIVES

1. Do not accept some or all of the Committee's recommendations.
2. Modify some or all of the Committee's recommendations.
3. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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- Attachments:
1. Annual Report of the Investment Review Committee for Fiscal Year 2022-23
 2. Redlined version of Council Policy B-2, Investment Policy
 3. Resolution of the City Council of the City of Mountain View Modifying Council Policy B-2, Investment Policy
 4. Agenda and Memorandum from the Investment Review Committee Meeting, October 30, 2023