

RESOLUTION NO. 6788-2026

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SEBASTOPOL APPROVING AN UPDATED INVESTMENT POLICY STATEMENT AND DELEGATING INVESTMENT AUTHORITY PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTIONS 53607, 53646, 53601

WHEREAS, California Government Code Section 53607 requires the legislative body of a local agency to annually delegate investment authority; and

WHEREAS, California Government Code Section 53646 provides that the Treasurer or Chief Financial Officer may annually render a statement of investment policy to the legislative body of the local agency; and

WHEREAS, if such a policy is rendered and includes any changes, it must be reviewed and approved at a public meeting; and

WHEREAS, in accordance with best management practices and the City's existing Investment Policy, the City reviews and adopts its Investment Policy Statement; and

WHEREAS, the City's Investment Policy was last reviewed and approved on September 1, 2017; and

WHEREAS, following a comprehensive review and recommendation from the City's Investment Advisor, Shuster Advisory Group, LLC ("Shuster"), Staff proposes adopting an updated Investment Policy Statement for Fiscal Year 2026/27 that incorporates the following updates consistent with California Government Code Section 53601;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Sebastopol does hereby approve an updated Investment Statement Policy, attached hereto as Exhibit A and incorporated herein.

BE IT FURTHER RESOLVED that the City Council of the City of Sebastopol does hereby delegate investment authority pursuant to Government Code section 53607 to Shuster Advisory Group, a HUB International Company.

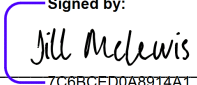
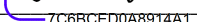
This resolution shall take effect immediately upon adoption by the City Council, and the City Clerk shall certify the vote adopting the resolution.

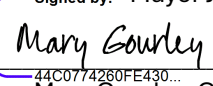
IN COUNCIL DULY PASSED, APPROVED AND ADOPTED this 21<sup>st</sup> day of July, 2026.

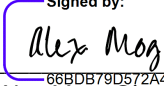
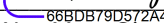
I HEREBY CERTIFY that the foregoing is a true and correct copy of a Resolution passed and adopted by the City Council of the City of Sebastopol by the following roll call vote:

**VOTE:**

Ayes: Councilmembers Carter, Hinton, Zollman, Vice Mayor Maurer and Mayor McLewis  
Noes: None  
Absent: None  
Abstain: None

APPROVED:  Signed by:  7C6BCED0A8914A1...

ATTEST:  Signed by: Mayor Jill McLewis  
 44C0774260FE430...  
Mary Gourley, City Manager

APPROVED AS TO FORM:  Signed by:  66BDB79D572A4EB...  
Alex Mog, City Attorney

# INVESTMENT POLICY

Effective **July 21, 2026**

## OVERVIEW

This policy describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored. The document serves as a communication tool for staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities. An investment policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds, making it the most important element in a public funds investment program.

### I. Governing Authority

The investment program shall be operated in conformance with governing legislation and other legal requirements.

### II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds if applicable.

- a. Pooling of Funds - Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

- ▶ **SAFETY** - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
- a. Credit Risk - The City will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:
  - Limiting investments to the types of securities listed in Section VII of this Investment Policy.
  - Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section V.
  - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

- b. Interest Rate Risk - The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
  - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).
- **LIQUIDITY** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- **RETURN** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
- A security with declining credit may be sold early to minimize loss of principal;
  - Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
  - Unanticipated liquidity needs of the portfolio require that the security be sold.

#### IV. **Standards of Care**

##### 1. Prudence

The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

##### 2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

### 3. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director. Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## V. **Authorized Financial Institutions, Depositories, and Broker/Dealers**

### 1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the City's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Finance Director.

## VI. **Safekeeping and Custody**

### 1. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

### 2. *Safekeeping*

Securities will be held by an independent third-party custodian selected by the entity as with all securities held in the City's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

### 3. *Internal Controls*

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the Budget Subcommittee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

## VII. Suitable and Authorized Investments

1. *Investment Types* - The following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
  - There is no limitation as to the percentage of the City's portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
  - There is no limitation as to the percentage of the City's portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase. The maturity of Agency mortgage-backed or asset-backed securities shall be measured by Weighted-Average-Life (WAL), which is not to exceed 5 years.
- Certificates of deposit and other evidences of deposit at financial institutions,
  - Securities in this category shall be limited to the maximum amount covered by federal deposit insurance currently set at \$250,000. A maximum of 30% of the City's portfolio may be invested in negotiable certificates of deposit. There is no limit for non-negotiable certificates of deposit. The maximum maturity for this investment is five years from the time of purchase.
- Bankers' acceptances and other short-term debt instruments issued by a company that is guaranteed by a commercial bank;
  - Banker Acceptances are limited to institutions with short-term debt obligations of A-1 or higher and have long term debt obligations rated "A" or higher, or the equivalent by an NRSRO. The maturity shall not exceed 180 days and no more than 40% of the total portfolio may be invested in Bankers' Acceptances and no more than 10% per issuer.
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
  - The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):
    1. The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation; (B) Has total assets in excess of five hundred million dollars (\$500,000,000), and (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or better by an NRSRO.
    2. The entity meets the following criteria: (A) is organized within the United States as a special purpose corporation, trust, or limited liability company, (B) Has program-wide credit enhancements including but not limited to, overcollateralization, letters of credit, or a surety bond, and (C) Has commercial paper that is rated "A-1" or better, or the equivalent, by an NRSRO.
  - Purchases are limited to securities that have a maximum maturity of 397 days. A maximum of 25% of the City's portfolio may be invested in this category with a maximum of 10% per issuer.
- Corporate Bonds or medium-term notes;
  - Defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Purchases are limited to securities rated in a rating category of "A" or its equivalent or better by an NRSRO. A maximum of 30% of the City's portfolio may be invested in this category with a maximum of 10% per issuer.

- **Mortgage-Backed (MBS) and Asset-Backed Securities (ABS)**
  - Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. Eligible securities must be rated, by a NRSRO, in a rating category of "AA," its equivalent or higher and have a maximum remaining maturity of five years or less measured on a weighted average life (WAL) basis. No more than 20% of the City's portfolio may be invested in non-Agency MBS and ABS.
- **Obligations of state, provincial and local governments and public authorities ~~rated A or better;~~**
  - Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
  - Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
  - There is no limitation as to the percentage of the City's portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.
- **Supranational Securities**
  - United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. The securities shall be rated in a rating category of "AA" or its equivalent or better by a NRSRO. No more than 30 percent of the market value of the City's investment portfolio may be invested in this category. No more than 10% of the market value of the City's investment portfolio may be invested in any single issuer, and the maximum maturity shall not exceed five years.
- **Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;**
  - Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.
- **Money market mutual funds ~~regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and~~**
  - Money Market Mutual Funds investments shall be permitted in shares of beneficial interest issued by diversified management companies that are government money market funds ("MMF") registered with the SEC under the Investment Company Act of 1940. Commission (e.g., sales load on purchases, reinvested dividends, redemptions, and exchanges) shall not be included in the purchase of any fund shares. A qualifying MMF must have: (1) total portfolio net assets of \$500 million or more; and (2) the highest rating of the two largest nationally recognized rating services OR an investment advisor who is registered with the SEC, and who has five years or more of experience investing for MMFs of \$500 million or more in total portfolio net assets. No more than 20 percent of the market value of the City's investment portfolio

may be invested in this category.

- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
  - Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized by Code. There is no limitation as to the percentage of City's investment portfolio that may be invested in this category.
- Local Agency Investment Fund ("LAIF")
  - Investment shall be permitted in this pool which is organized and managed by the State Treasurer's Office for the benefit of local agencies. Investment shall be limited to the maximum amount per legal entity that is permitted by the program.
- Other investment types or asset classes as approved by the City Council.

Investment in derivatives of the above instruments shall require authorization by the City Council.

### VIII. Investment Diversification & Constraints

#### 1. *Diversification*

It is the policy of the City to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City's funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Finance Director for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** ~~No more than xx percent of the portfolio may be invested beyond xx months, and the~~ The weighted average maturity of the total portfolio shall ~~never exceed~~ target 3 years. Both individual Agency and Non-Agency Mortgage-Backed Securities and Asset-Backed Securities may be measured by their Weighted-Average-Life when determining allowable maturity limits.
- **Default risk:** No more than 10 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury or any US Agency. ~~No more than xx percent of the portfolio may be~~



~~invested in each of the following categories of securities:~~

- ~~a) Commercial paper,~~
- ~~b) Negotiable certificates of deposit,~~
- ~~c) Bankers' acceptances,~~
- ~~d) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and~~

- **Liquidity risk:** Based on liquidity needs, at least 5 percent of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one day.

## 2. *Maximum Maturities*

To the extent possible, the ~~[entity]~~ City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow **or otherwise allowed in the Authorized Investments above**, the City will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with governing legislation. The City shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities.

## 3. *Competitive Bids*

The investment officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.

# IX. Reporting

## 1. *Methods*

The investment officer shall prepare an investment report at least quarterly ~~for monthly~~, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter ~~for month~~. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted return on investments as compared to applicable benchmarks.
- Percentage of the total portfolio which each type of investment represents.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives



The Investment Advisor shall monitor for the City, on a monthly basis, the weighted-average-life for each structured security to ensure compliance with the individual 5-year weighted-average-life limitation. Weighted-Average-Life (WAL) measures the average length of time for anticipated principal repayments to measure a bond's risk and liquidity. In order to calculate a bond's WAL, assumptions must be made regarding prepayment event probabilities, prepayment amounts, prepayment speed, underlying asset leverage, and other collateral features as well as macroeconomic drivers such as, but not limited to, interest rate expectations, home prices, and mortgage rates. Institutionally, proprietary models use these various assumed inputs to estimate the amount and timing of principal repayments in order to produce a WAL output that functions as a useful metric to understand interest rate risk, prepayment risk, and extension risk.

All data shall be maintained by the Investment Advisor for record-keeping purposes. If a structured security is reported to have a weighted-average-life greater than 5 years, it shall be flagged for discussion with both the City and Investment Advisor to determine if the security shall be held or liquidated, depending on underlying risk and broader market conditions. Notwithstanding the aforementioned process, any security with a weighted-average-life greater than 4 years shall be monitored on a monthly basis to note any reporting trends.

## 2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

## 3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly ~~for monthly~~. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

# X. **Policy Considerations**

## 1. *Amendments*

This policy shall be reviewed on an annual basis. Any changes must be submitted by the investment officer and approved by the investment oversight committee or authoritative body acting in such capacity.

# XI. **Approval of Investment Policy**

The Investment Policy shall be formally approved and adopted by the governing body of the City and reviewed annually.

# XII. **List of Attachments**

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel;

- Relevant investment statutes and ordinances;
- Listing of authorized broker/dealers and financial institutions;
- Detailed listing of authorized investment classes, sectors, and types;
- Internal Controls;
- Glossary

**XIII. Other Documentation**

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker/Dealer Questionnaire,
- Credit studies for securities purchased and financial institutions used,
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return

# INVESTMENT POLICY

Effective July 21, 2026

## OVERVIEW

This policy describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored. The document serves as a communication tool for staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities. An investment policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds, making it the most important element in a public funds investment program.

### I. Governing Authority

The investment program shall be operated in conformance with governing legislation and other legal requirements.

### II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds if applicable.

- a. Pooling of Funds - Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

- ▶ **SAFETY** - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
- a. Credit Risk - The City will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:
  - Limiting investments to the types of securities listed in Section VII of this Investment Policy.
  - Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section V.
  - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

- b. Interest Rate Risk - The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
  - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).
- **LIQUIDITY** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- **RETURN** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
- A security with declining credit may be sold early to minimize loss of principal;
  - Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
  - Unanticipated liquidity needs of the portfolio require that the security be sold.

#### IV. **Standards of Care**

##### 1. Prudence

The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

##### 2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

### 3. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director. Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## V. **Authorized Financial Institutions, Depositories, and Broker/Dealers**

### 1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the City's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Finance Director.

## VI. **Safekeeping and Custody**

### 1. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

### 2. *Safekeeping*

Securities will be held by an independent third-party custodian selected by the entity as with all securities held in the City's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

### 3. *Internal Controls*

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the Budget Subcommittee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

## **VII. Suitable and Authorized Investments**

1. *Investment Types* - The following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
  - There is no limitation as to the percentage of the City's portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
  - There is no limitation as to the percentage of the City's portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase. The maturity of Agency mortgage-backed or asset-backed securities shall be measured by Weighted-Average-Life (WAL), which is not to exceed 5 years.
- Certificates of deposit and other evidences of deposit at financial institutions,
  - Securities in this category shall be limited to the maximum amount covered by federal deposit insurance currently set at \$250,000. A maximum of 30% of the City's portfolio may be invested in negotiable certificates of deposit. There is no limit for non-negotiable certificates of deposit. The maximum maturity for this investment is five years from the time of purchase.
- Bankers' acceptances and other short-term debt instruments issued by a company that is guaranteed by a commercial bank;
  - Banker Acceptances are limited to institutions with short-term debt obligations of A-1 or higher and have long term debt obligations rated "A" or higher, or the equivalent by an NRSRO. The maturity shall not exceed 180 days and no more than 40% of the total portfolio may be invested in Bankers' Acceptances and no more than 10% per issuer.
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
  - The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):
    1. The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation; (B) Has total assets in excess of five hundred million dollars (\$500,000,000), and (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or better by an NRSRO.
    2. The entity meets the following criteria: (A) is organized within the United States as a special purpose corporation, trust, or limited liability company, (B) Has program-wide credit enhancements including but not limited to, overcollateralization, letters of credit, or a surety bond, and (C) Has commercial paper that is rated "A-1" or better, or the equivalent, by an NRSRO.
  - Purchases are limited to securities that have a maximum maturity of 397 days. A maximum of 25% of the City's portfolio may be invested in this category with a maximum of 10% per issuer.
- Corporate Bonds or medium-term notes;
  - Defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Purchases are limited to securities rated in a rating category of "A" or its equivalent or better by an NRSRO. A maximum of 30% of the City's portfolio may be invested in this category with a maximum of 10% per issuer.

- Mortgage-Backed (MBS) and Asset-Backed Securities (ABS)
  - Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. Eligible securities must be rated, by a NRSRO, in a rating category of “AA,” its equivalent or higher and have a maximum remaining maturity of five years or less measured on a weighted average life (WAL) basis. No more than 20% of the City's portfolio may be invested in non-Agency MBS and ABS.
- Obligations of state, provincial and local governments and public authorities;
  - Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
  - Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
  - There is no limitation as to the percentage of the City's portfolio that may be invested in this category. The maximum maturity for this investment is five years from the time of purchase.
- Supranational Securities
  - United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. The securities shall be rated in a rating category of “AA” or its equivalent or better by a NRSRO. No more than 30 percent of the market value of the City’s investment portfolio may be invested in this category. No more than 10 percent of the market value of the City’s investment portfolio may be invested in any single issuer, and the maximum maturity shall not exceed five years.
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
  - Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.
- Money market mutual funds
  - Money Market Mutual Funds investments shall be permitted in shares of beneficial interest issued by diversified management companies that are government money market funds ("MMF") registered with the SEC under the Investment Company Act of 1940. Commission (e.g., sales load on purchases, reinvested dividends, redemptions, and exchanges) shall not be included in the purchase of any fund shares. A qualifying MMF must have: (1) total portfolio net assets of \$500 million or more; and (2) the highest rating of the two largest nationally recognized rating services OR an investment advisor who is registered with the SEC, and who has five years or more of experience investing for MMFs of \$500 million or more in total portfolio net assets. No more than 20 percent of the market value of the City’s investment portfolio may be invested in this category.



- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
  - Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized by Code. There is no limitation as to the percentage of City's investment portfolio that may be invested in this category.
- Local Agency Investment Fund ("LAIF")
  - Investment shall be permitted in this pool which is organized and managed by the State Treasurer's Office for the benefit of local agencies. Investment shall be limited to the maximum amount per legal entity that is permitted by the program.
- Other investment types or asset classes as approved by the City Council.

Investment in derivatives of the above instruments shall require authorization by the City Council.

### **VIII. Investment Diversification & Constraints**

#### ***1. Diversification***

It is the policy of the City to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City's funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Finance Director for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** The weighted average maturity of the total portfolio shall target 3 years. Both individual Agency and Non-Agency Mortgage-Backed Securities and Asset-Backed Securities may be measured by their Weighted-Average-Life when determining allowable maturity limits.
- **Default risk:** No more than 10 percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury or any US Agency.
- **Liquidity risk:** Based on liquidity needs, at least 5 percent of the overall portfolio shall be invested in overnight instruments or in marketable securities

which can be converted to cash within one day.

2. *Maximum Maturities*

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow or otherwise allowed in the Authorized Investments above, the City will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with governing legislation. The City shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities.

3. *Competitive Bids*

The investment officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.

## IX. Reporting

1. *Methods*

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted return on investments as compared to applicable benchmarks.
- Percentage of the total portfolio which each type of investment represents.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives

The Investment Advisor shall monitor for the City, on a monthly basis, the weighted-average-life for each structured security to ensure compliance with the individual 5-year weighted-average-life limitation. Weighted-Average-Life (WAL) measures the average length of time for anticipated principal repayments to measure a bond's risk and liquidity. In order to calculate a bond's WAL, assumptions must be made regarding prepayment event probabilities, prepayment amounts, prepayment speed, underlying asset leverage, and other collateral features as well as macroeconomic drivers such as, but not limited to, interest rate expectations, home prices, and mortgage rates. Institutionally, proprietary models use these various assumed inputs to estimate the amount and timing of principal repayments in order to produce a WAL output that functions as a useful metric to understand interest rate risk, prepayment risk, and extension risk.

All data shall be maintained by the Investment Advisor for record-keeping purposes. If a structured security is reported to have a weighted-average-life greater than 5 years, it shall be flagged for discussion with both the City and Investment Advisor to determine if the security shall be held or liquidated, depending on underlying risk and broader market conditions. Notwithstanding the aforementioned process, any security with a weighted-average-life greater than 4 years shall be monitored on a monthly basis to note any reporting trends.

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

**X. Policy Considerations**

1. *Amendments*

This policy shall be reviewed on an annual basis. Any changes must be submitted by the investment officer and approved by the investment oversight committee or authoritative body acting in such capacity.

**XI. Approval of Investment Policy**

The Investment Policy shall be formally approved and adopted by the governing body of the City and reviewed annually.

**XII. List of Attachments**

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel;
- Relevant investment statutes and ordinances;
- Listing of authorized broker/dealers and financial institutions;
- Detailed listing of authorized investment classes, sectors, and types;
- Internal Controls;
- Glossary

**XIII. Other Documentation**

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker/Dealer Questionnaire,
- Credit studies for securities purchased and financial institutions used,
- Safekeeping agreements,

- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return