



FUNDAMENTALS OF PUBLIC FUNDS INVESTING

JANUARY 28–29, 2026 | COSTA MESA, CALIFORNIA



What are your goals as an attendee at this year's Fundamentals of Public Funds Investing seminar?

- ⓘ The Slido app must be installed on every computer you're presenting from

SESSION ONE

Understanding Roles and Responsibilities of Public Investment Officers, Staff, and Elected Officials



BRET BLACK

Financial Manager
Eastern Municipal Water District



VISHAL THACKER

Assistant Treasurer
County of Alameda

Public Funds Investing: Introduction

- Public funds represent taxpayer dollars and public trust
- Highest priority: Safety → Liquidity → Yield
- Decisions occur under legal, fiduciary, and public scrutiny
- Shared responsibility across multiple roles
- Clear governance structures reduce risk and build confidence

Why Governance Matters

- Prevents errors, misuse, and conflicts of interest
- Supports transparency and accountability
- Protects individuals and the agency from liability
- Ensures continuity during staff or leadership changes

Purpose of This Session

- Clarify roles and responsibilities
- Distinguish:
 - Elected officials
 - Treasurer/Investment Officer
 - Audit, accounting, and support staff
- Review common organizational structures
- Understand legal and fiduciary obligations
- Highlight personal and institutional liability

Key Participants

- Governing body/elected officials
- Treasurer/investment officer
- Finance & treasury staff
- Oversight committees
- Advisors, brokers, consultants

Fiduciary Duty

- Act solely in the public's best interest
- Exercise care, skill, prudence, and diligence
- Follow the law and adopt investment policy
- Avoid conflicts of interest
- Decisions judged by process, not outcomes

California Legal Framework

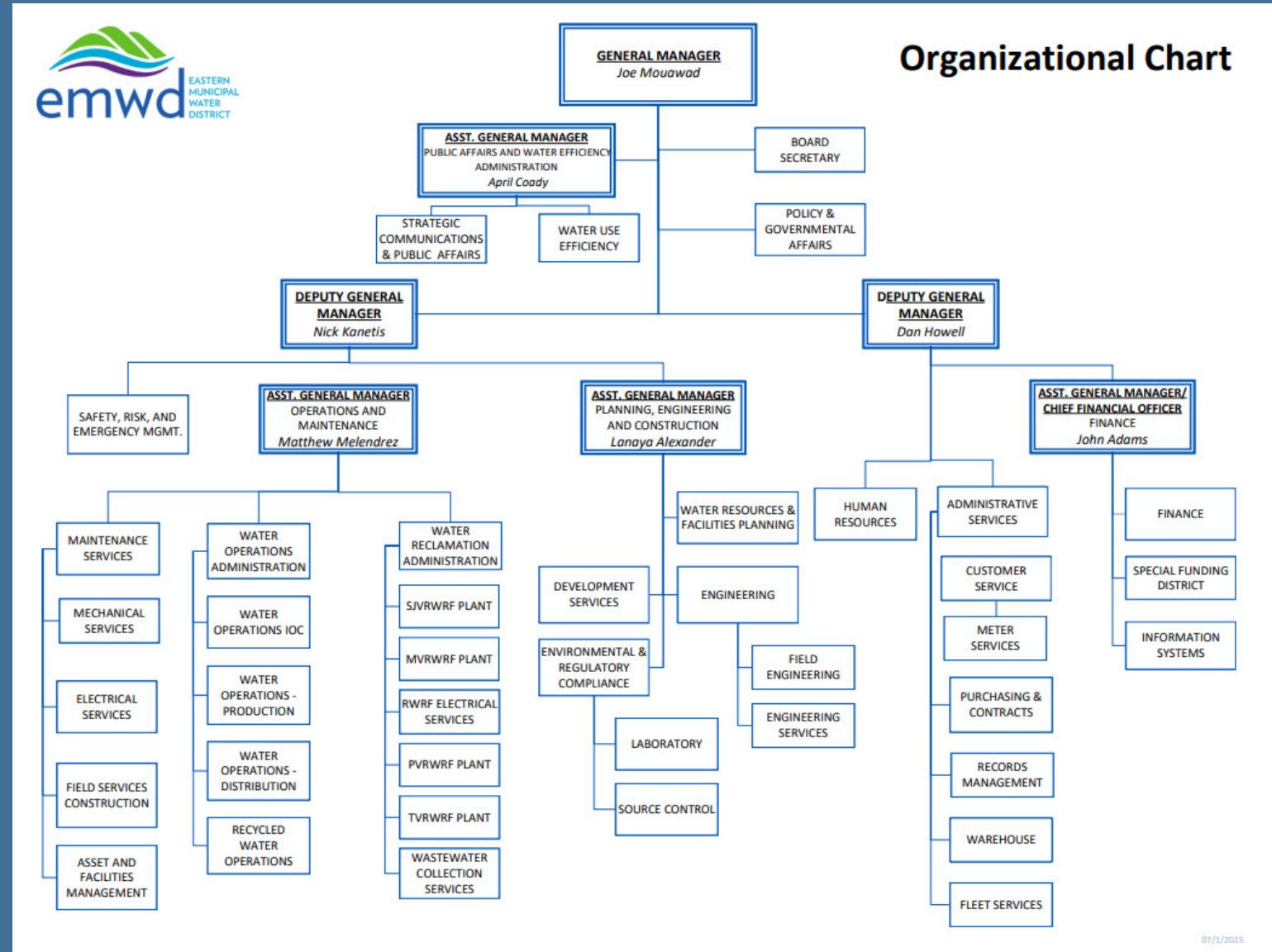
- California Government Code
- Prudent Investor Standard
- Delegation of investment authority
- Local Investment Policy requirements
- Oversight and reporting expectations

Organizational Structures

- Structures vary by agency type
- Governance principles remain consistent
- Accountability must be clear regardless of structure

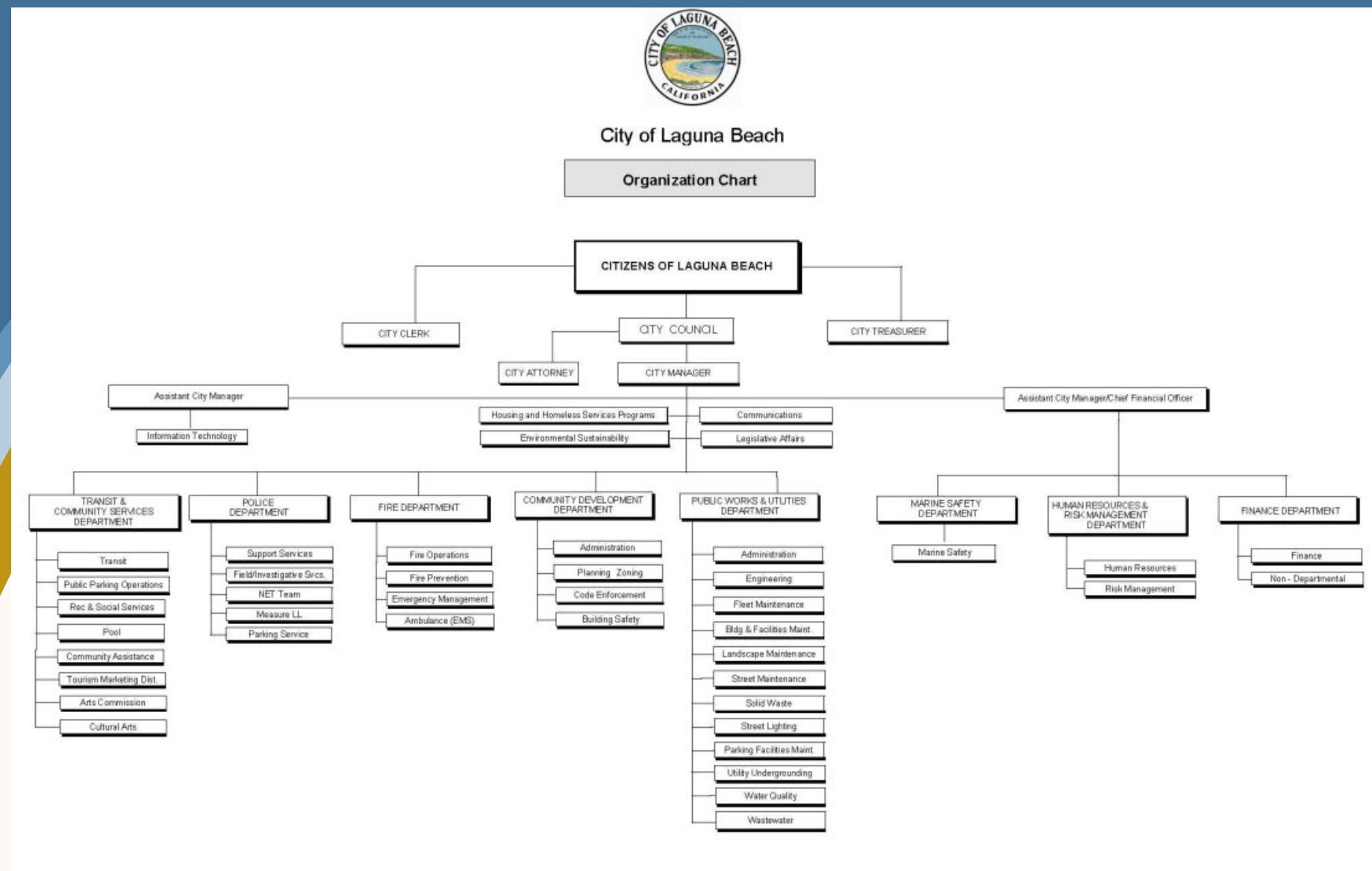
Organizational Structure – Appointed Treasurer

- An appointed Treasurer serves at the pleasure of and reports directly to management at the organization and the governing body.
- This looks much more like a typical employee-employer relationship
- Local taxpayers are often unaware (and less interested) in who is managing funds



Organizational Structure – Elected Treasurer

- In an elected role, the Treasurer is accountable to their constituents
- Despite greater autonomy, interaction with governing agency remains
 - Budget approvals
 - HR/staffing
 - Procurement



Organizational Structure: Elected Treasurer

- Treasurer accountable directly to voters
- Greater autonomy, but coordination required
- Interaction with governing body on:
 - Budget
 - Staffing
 - Procurement
- **Pros:** Direct public accountability
- **Cons:** Multiple reporting relationships

Organizational Structure: Appointed Treasurer

- Serves at the pleasure of the governing body
- Traditional employer-employee relationship
- Less public visibility of the role
- **Pros:** Clear reporting structure
- **Cons:** Reduced public awareness

Core Responsibilities (All Structures)

- Non-partisan, professional role
- Operates within adopted policy
- Protected from political influence
- Relies on separation of duties

Governance & Policy

Governing Body/Investment Committee

- Approves investment policy
- Sets risk tolerance and objectives
- Delegates authority
- Provides oversight
- Does **not** execute trades

Execution & Management

Treasurer/Investment Officer

- Executes investment strategy
- Manages liquidity and cash flow
- Conducts pre-trade compliance checks
- Monitors portfolio limits
- Manages broker and vendor relationships

Separation of Duties

- Core control in public fund management
- Separates:
 - Trading
 - Reporting
 - Reconciliation
- Reduces fraud and operational risk
- Ensures checks and balances

Separation of Duties & Succession Planning

- Roles defined by function, not person
- Processes are documented and repeatable
- Institutional knowledge preserved
- Smooth transition during vacancies

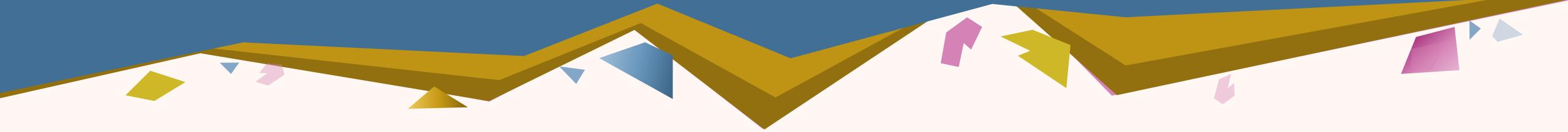
Separation of Duties & Business Continuity

- Reduces single points of failure
- Enables coverage during absences
- Maintains confidence of:
 - Governing bodies
 - Auditors
 - The public

Role of Stakeholders

- Adopt and review investment policy
- Set and revisit risk tolerance
- Ask informed, policy-based questions
- Focus on oversight, not micromanagement

Transparency & Reporting



Governing Body/Investment Committee

- Receives timely and accurate reports
- Reviews:
 - Policy compliance
 - Risk exposure
 - Portfolio performance
- Provides strategic oversight

Treasurer/Investment Officer

- Ensures accurate and consistent reporting
- Explains:
 - Strategy
 - Market conditions
 - Performance results
- Discloses deviations or exceptions
- Provides cash sufficiency statements

Transparency & Reporting

(cont. 3 out of 3)

- Accounting/Audit/Back Office
- Independent verification of activity
- Records transactions
- Performs reconciliations
- Confirms alignment with:
 - General ledger
 - Custodial statements
 - Third-party manager reports

Key Takeaways

- Clear roles protect public funds
- Separation of duties is essential
- Transparency builds trust
- Oversight focuses on governance, not execution
- Strong processes ensure continuity and accountability

QUESTIONS?



BRET BLACK

Financial Manager

Eastern Municipal Water District

blackb@emwd.org



VISHAL THACKER

Assistant Treasurer

County of Alameda

vishal.thacker@acgov.org

SESSION TWO

Investment Terms and Concepts

STEVE HUNTLEY

Senior Portfolio Strategist
Chandler Asset Management



FOR TODAY'S DISCUSSION

- Bond Basics
- Key Terms
- Key Concepts
- Bringing It All Together



BONDS 101

What Exactly Is A Bond?

WHAT IS A BOND?

Lender purchases a bond from Borrower



Borrower pays interest to Lender



At maturity, Borrower returns principal to Lender



WHAT IS A BOND?

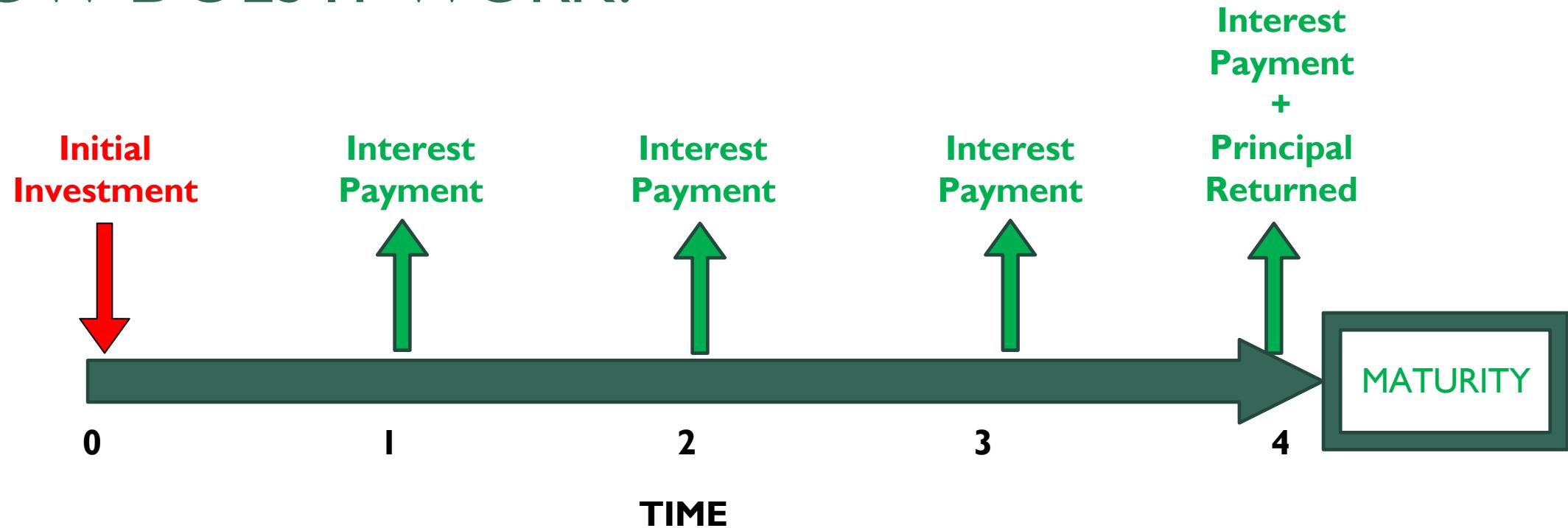
- Bonds are debt obligations
 - Referred to as fixed-income securities; offers a fixed stream of income

IOU

Issuer Promises to pay % annually
on \$\$ and repay principal by
MM/DD/YYYY

- Types of Bonds
 - *Treasury Bonds*
 - *Federal Agency Bonds*
 - *Municipal Bonds*
 - *Investment-grade Corporate Bonds*
 - *High-yield Corporate Bonds*
 - *Asset-backed Bonds*
 - *Mortgage-backed Bonds*
 - *Convertible bonds*
 - *Foreign Bonds*

HOW DOES IT WORK?



- Simply buy securities
- Hold them until maturity
- Reinvest maturing funds into new security
- ***But is there more to it?***

HOW THE BOND MARKET WORKS

- Not centrally exchanged
- Broker prices differ
- Prices depend on:
 - Market forces
 - Rate levels
 - Trading volume
 - Relationships
 - Broker inventory
- All this means you should shop around



USING BOND MARKET LANGUAGE

Key Terminology

BOND TERMINOLOGY—ALL THESE VALUES!

- **Par Value**—Face value of bond—it is the amount upon which coupon is calculated, and the amount you receive at maturity
- **Original Cost**—The price you paid for a bond—it can be above, below, or at par value
- **Premium or Discount**—The amount above or below par value paid for a bond
- **Amortized Cost (Book Value)**—The carrying value of the bond on your books (original cost +/- premium amortized or discount accreted to date)
- **Market Value**—The amount someone else is willing to pay for your bond

BOND TERMINOLOGY

- Basis point (1/100 of 1% or .0001)
- Spread
 - Difference between yields on differing debt instruments
 - Treasury yield is 1.00%;
 - Agency yield is 1.30%
 - **Spread = 1.3 – 1.0 = 30 bps**

BOND TERMINOLOGY

- **Yield**—Annual rate at which you are expected to earn interest income assuming same rate reinvestment
- **Return**—Rate you actually earned for a specific holding period
 - Total Return = Interest Income + Realized Gains/Losses + Unrealized Gains/Losses
 - Book Return = Interest Income + Realized Gains/Losses ONLY (no marking to market)

Yield and Return do not necessarily mean the same thing!

INVESTMENT CONCEPTS: RETURN IMPACTS

- Income: Budget and ACFR
- Fair Value Change: ACFR only

PROFIT AND LOSS BY MONTH

January 1 - May 21, 2019

	JAN 2019	FEB 2019	MAR 2019	APR 2019	MAY 1-21, 2019	TOTAL
» Income	\$391.25	\$521.00	\$1,917.00	\$7,371.52	\$0.00	\$10,200.77
» Cost of Goods Sold	\$0.00	\$0.00	\$0.00	\$405.00	\$0.00	\$405.00
GROSS PROFIT	\$391.25	\$521.00	\$1,917.00	\$6,966.52	\$0.00	\$9,795.77
» Expenses	\$0.00	\$408.08	\$511.68	\$3,921.16	\$96.39	\$4,937.31
NET OPERATING INCOME	\$391.25	\$112.92	\$1,405.32	\$3,045.36	\$ -96.39	\$4,858.46
» Other Expenses	\$0.00	\$0.00	\$250.00	\$2,666.00	\$0.00	\$2,916.00
NET OTHER INCOME	\$0.00	\$0.00	\$ -250.00	\$ -2,666.00	\$0.00	\$ -2,916.00
NET INCOME	\$391.25	\$112.92	\$1,155.32	\$379.36	\$ -96.39	\$1,942.46

The report included is for illustrative purposes only.

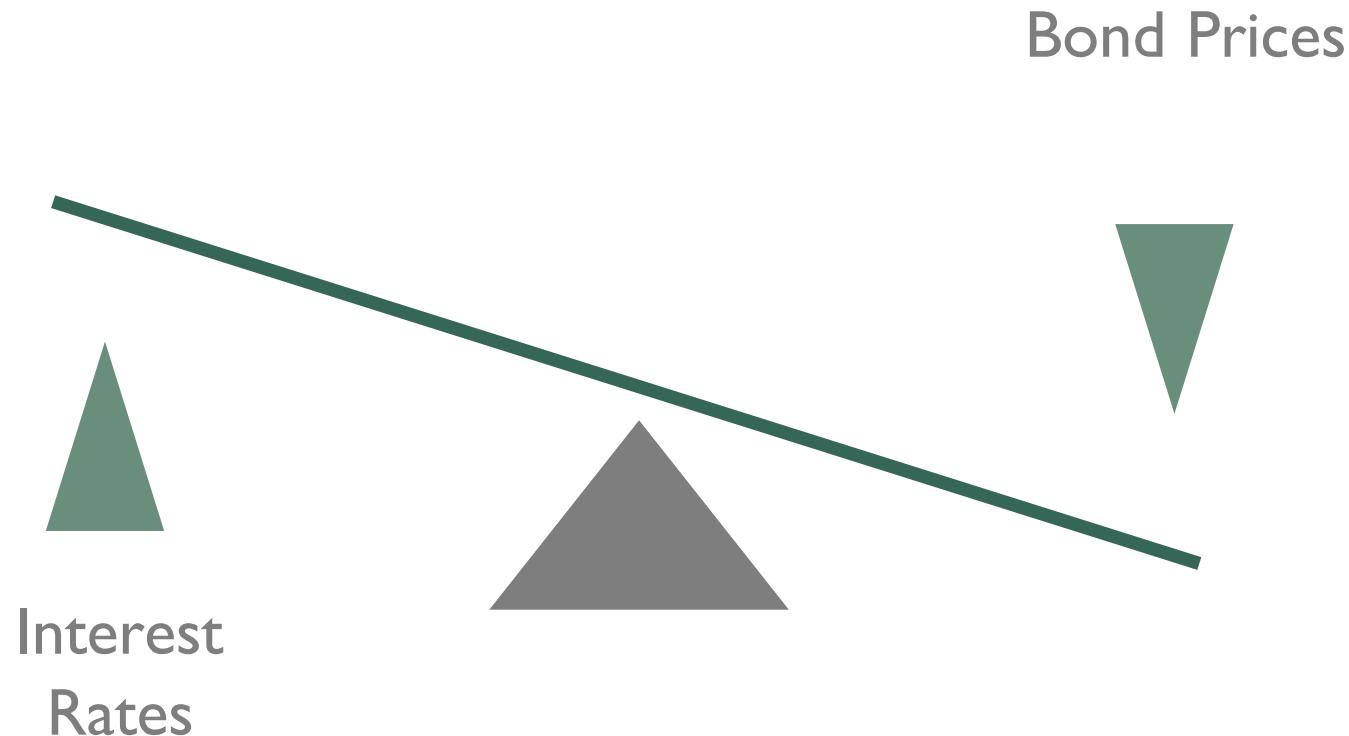
	FY 2017 Total Activity	FY 2018 Total Activity	FY 2019 Amended Budget	FY 2020 Proposed Budget
REVENUES				
Taxes				
Property Taxes	\$ 3,523,943	\$ 14,971,071	\$ 16,745,358	\$ 16,735,220
Sales & Use	12,025,807	15,852,753	15,740,000	16,090,000
Taxes	2,963,708	3,207,190	3,195,138	3,384,000
Business & Other Taxes	616,148	628,090	650,832	614,650
Licenses & Permits	581,373	773,082	1,355,819	805,528
Intergovernmental Revenues	2,846,330	2,718,438	2,632,681	2,420,920
Charges for Services	494,891	422,670	364,825	380,000
Fines & Forfeitures	127,872	508,452	966,136	701,000
Investment Income	40,281	47,383	38,331	17,000
Contributions & Donations	190,689	164,808	204,921	108,726
Miscellaneous Revenue				
subtotal	\$ 23,390,841	\$ 39,291,896	\$ 41,894,041	\$ 41,237,044
Other Financing Sources	\$ 13,079	\$ 31,240	\$ 164,500	\$ 10,000
Proceeds From Sale Of Assets	25,376,842	-	19,106,583	-
Assets Bond Proceeds	4,942,408	3,416,353	9,043,255	5,057,611
Interfund Transfers In	-	-	38,946,688	1,742,496
Budgeted Fund Balance				
subtotal	\$ 30,332,329	\$ 3,447,593	\$ 67,281,006	\$ 6,810,107
TOTAL REVENUES	\$ 53,723,169	\$ 42,739,489	\$ 109,155,047	\$ 48,047,151
EXPENDITURES (by Function)				
General Government	\$ 9,284,620	\$ 4,134,131	\$ 21,243,262	\$ 4,807,700
Judicial	279,811	411,688	463,582	470,202
Public Safety	11,782,028	12,509,445	19,294,736	14,826,023
Public Works	3,034,654	6,290,486	24,465,749	12,772,762
Culture & Recreation	1,696,271	7,187,011	29,594,099	3,092,515
Housing & Development	1,233,985	1,441,510	2,488,554	1,733,317
Debt Service	1,208,834	1,584,128	2,561,811	2,891,076
Contingency Initiatives	-	-	-	411,898
subtotal	\$ 28,520,183	\$ 33,558,409	\$ 100,111,792	\$ 42,881,320
Other Financing Uses				
Interfund Transfers Out	\$ 4,942,408	\$ 3,416,353	\$ 9,043,255	\$ 5,057,611
Restricted Fund Balance	-	-	-	108,220
subtotal	\$ 4,942,408	\$ 3,416,353	\$ 9,043,255	\$ 5,165,831
TOTAL EXPENDITURES	\$ 33,462,591	\$ 36,974,762	\$ 109,155,047	\$ 48,047,151

UNDERSTANDING BOND MARKET CONCEPTS

Key Concepts

KEY CONCEPT #1—PRICE AND RATE MOVE OPPOSITE ONE ANOTHER

Bond prices and interest rates have an inverse relationship



HOW DOES THIS WORK?

You purchase on 6/30/2025:

Par	Credit Quality	Coupon	Maturity	Income	Yield	Price
\$1 million	AAA	5%	6/30/2026	\$50,000	5%	100.000



IMPACT OF RISING RATES

Rates rise on 7/1/2025, and someone else purchases a newly-issued security similar to yours, but with a higher coupon:

Your Bond	Credit Quality	Coupon	Maturity	Income	Yield	Price
\$1 million	AAA	5%	6/30/2025	\$50,000	5%	100.000

Their Bond	Credit Quality	Coupon	Maturity	Income	Yield	Price
\$1 million	AAA	6%	6/30/2025	\$60,000	6%	100.000

IMPACT OF RISING RATES

Here's some math to contemplate:

	Par	Income	Yield
Their Bond	\$1 million	\$60,000	6%
Your Bond	\$1 million	- \$50,000	5%
= \$10,000			

Your security would have to
be sold at approximately
\$990K to make up for the
rise in interest rates



\$1,000,000
-\$10,000
\$990,000

IMPACT OF RISING RATES

Good News:
Interest income
will increase.

- Reinvestment depends on length of average maturity
- Budgets will benefit from increased cash flow

Bad News: The
value of bonds
will go down.

- Sales before maturity
- GASB 31 and the ACFR

KEY CONCEPT #2: DURATION

- **Duration** is a direct measure of exposure to market risk in a fixed maturity bond
 - A better measure of the sensitivity to changes in interest rates.
 - A close approximation of the percent change in the price of a bond for a given change in yield.
 - Securities with equal maturity dates may not have equal interest rate risk—duration quantifies the difference.
 - **The higher the duration of a bond or fixed income portfolio, the more its price will drop as interest rates rise.**

DURATION—FOR MATH FANS

$$Duration = \sum_{t=1}^n t \left(\frac{C_t}{(1+k)^t} \right) + n \left(\frac{M}{(1+k)^n} \right)$$



WHAT EXACTLY IS HAPPENING?

n	Years to Maturity	10 years
C	Coupon Payment	\$50
k	Market Rate of Interest (YTM)	7%
M	Maturity (Par) Value	\$1,000
B_0	Bond Price (PV of Bond)	\$859.53

Year	Cash Flow	PV of CF	PV/ B_0	Year*(PV/B0)
1	\$50	\$46.73	0.0544	0.0544
2	\$50	\$43.67	0.0508	0.1016
3	\$50	\$40.81	0.0475	0.1425
4	\$50	\$38.14	0.0444	0.1775
5	\$50	\$35.65	0.0415	0.2074
6	\$50	\$33.32	0.0388	0.2326
7	\$50	\$31.14	0.0362	0.2536
8	\$50	\$29.10	0.0339	0.2709
9	\$50	\$27.20	0.0316	0.2848
10	\$50	\$25.42	0.0296	0.2957
10	\$1,000	\$508.35	0.5914	5.9143
		$\Sigma = \$859.53$		$\Sigma = 7.9351 \text{ Years}$

Duration = 7.9351 Years

GENERAL RULE FOR DURATION

“As a general rule, for every 1% increase or decrease in interest rates, a bond’s price will change approximately 1% in the opposite direction for every year of duration”

Example using the “General Rule”:

- A bond with a duration (modified) of 3.2 will go up about 3.2% in price if its yield drops by 1% (100 basis points), and down about 3.2% if its yield rises 100 basis points.

IMPACT OF DURATION

Portfolio #1: \$50 million and 2.0 duration

- If rates increase 1.25%, then **(\$1,250,000) Loss**

$$\$50 \text{ million} \times 2 \times 1.25\% \times -1 = \$50 \text{ million} \times -2.5\% = \text{($1,250,000)}$$

- If rates decrease 1.25%, then **\$1,250,000 Gain**

$$\$50 \text{ million} \times 2 \times 1.25\% \times 1 = \$50 \text{ million} \times 2.5\% = \text{$1,250,000}$$

Portfolio #2 = \$50 million and 1.0 duration

- If rates increase 1.25%, then **(\$625,000) Loss**

$$\$50 \text{ million} \times 1 \times 1.25\% \times -1 = \$50 \text{ million} \times -1.25\% = \text{($625,000)}$$

- If rates decrease 1.25%, then **\$625,000 Gain**

$$\$50 \text{ million} \times 1 \times 1.25\% \times 1 = \$50 \text{ million} \times 1.25\% = \text{$625,000}$$

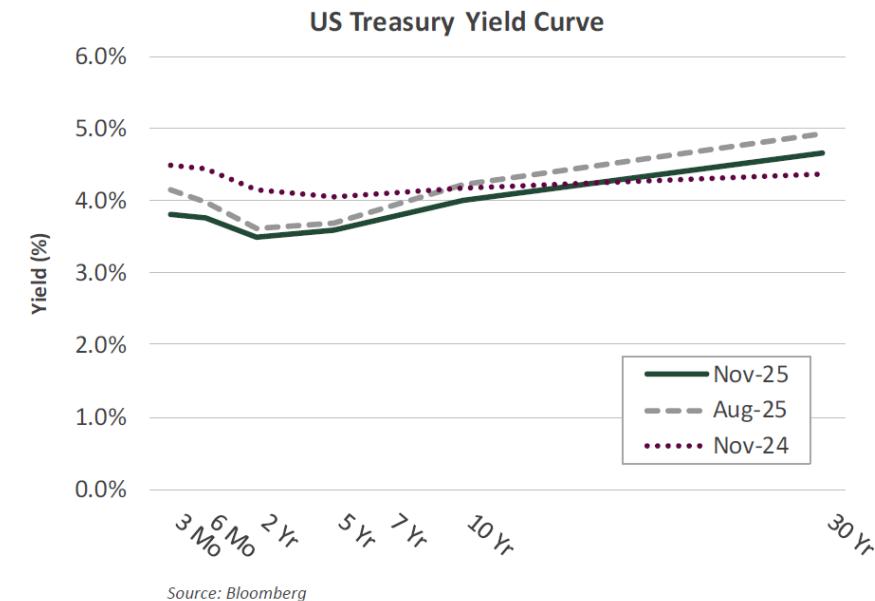
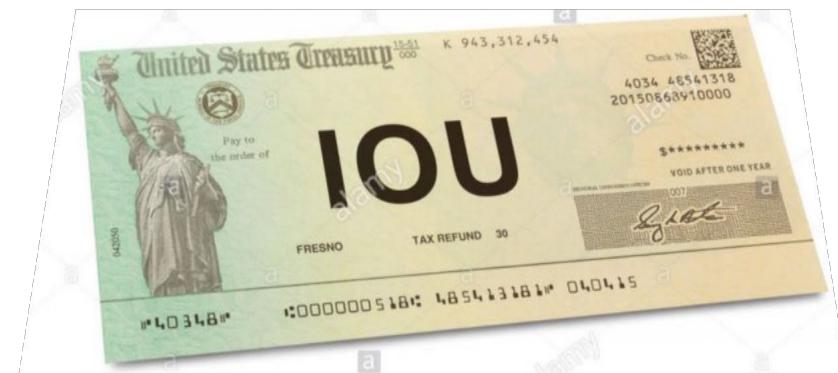
IS DURATION THE SAME THING AS WAM?

- Weighted Average Maturity (WAM) is the average time until the securities in a portfolio mature, weighted by their market value (or sometimes par value).
- **Focus:** It looks at the **final maturity dates** of the bonds, not the timing of interim cash flows.
- Duration measures the weighted average time to receive all cash flows (coupons + principal), discounted by present value.
- **Focus:** Captures **interest rate risk, not just maturity.**

<u>Feature</u>	<u>WAM</u>	<u>Duration</u>
Considers Coupons?	No	Yes
Risk Captured	Reinvestment & liquidity timing	Interest rate sensitivity
Calculation Basis	Final maturity dates	All cash flows (weighted by PV)
Common Use	Regulatory, liquidity metrics	Risk management, hedging, pricing

KEY CONCEPT #3—TREASURY YIELD CURVE (TERM STRUCTURE OF INTEREST RATES)

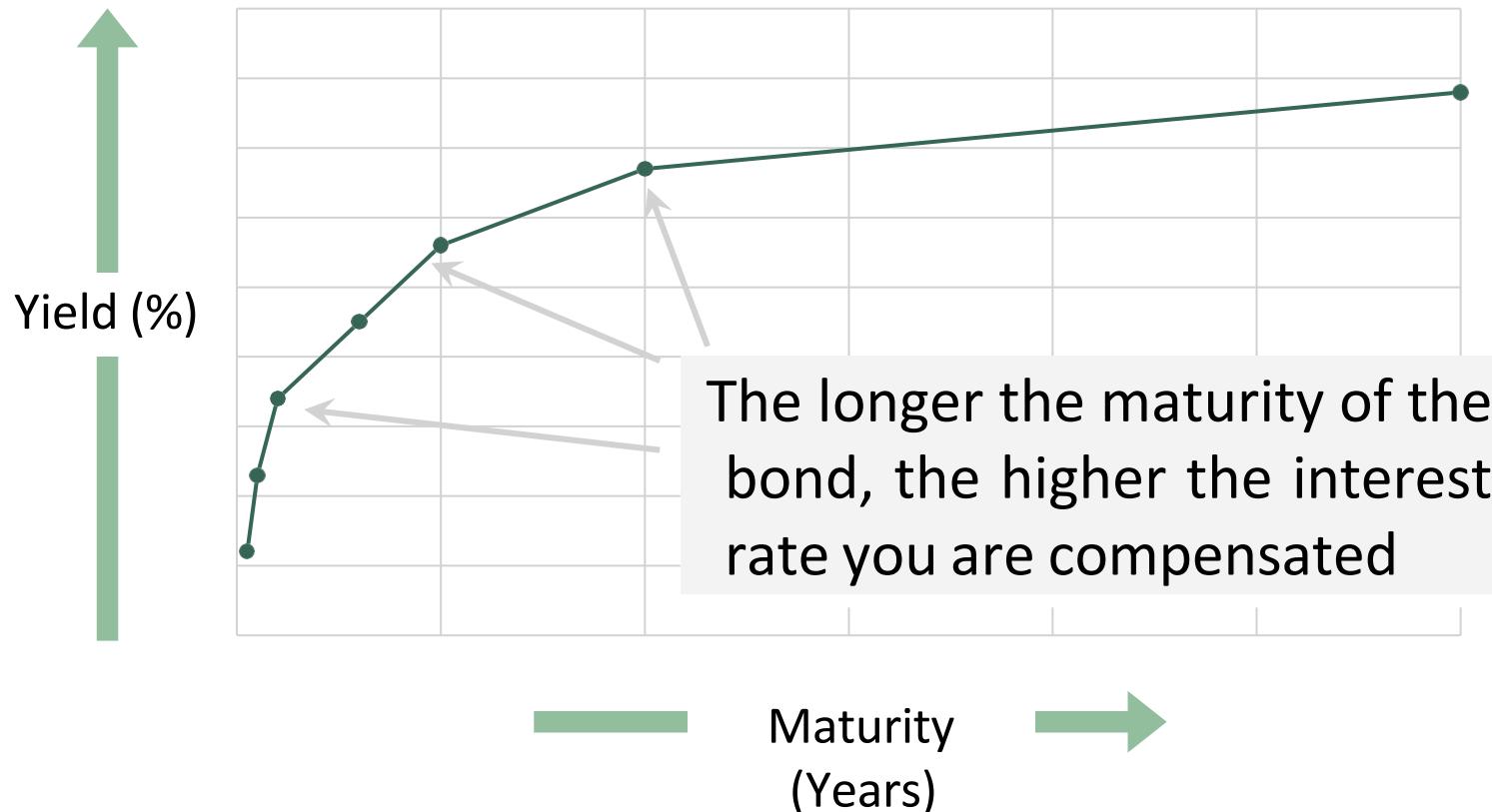
Treasuries are government IOUs
that pay interest, and different interest
rates for different time periods



- Treasuries are considered among the safest bond investments due to government backing.
- Yield curves are graphs depicting the yields of bonds of various maturities.
- The shape and direction of the Treasury yield curve is closely watched by economists and investors.

KEY CONCEPTS: THE TREASURY YIELD CURVE

■ Term Structure of Interest Rates



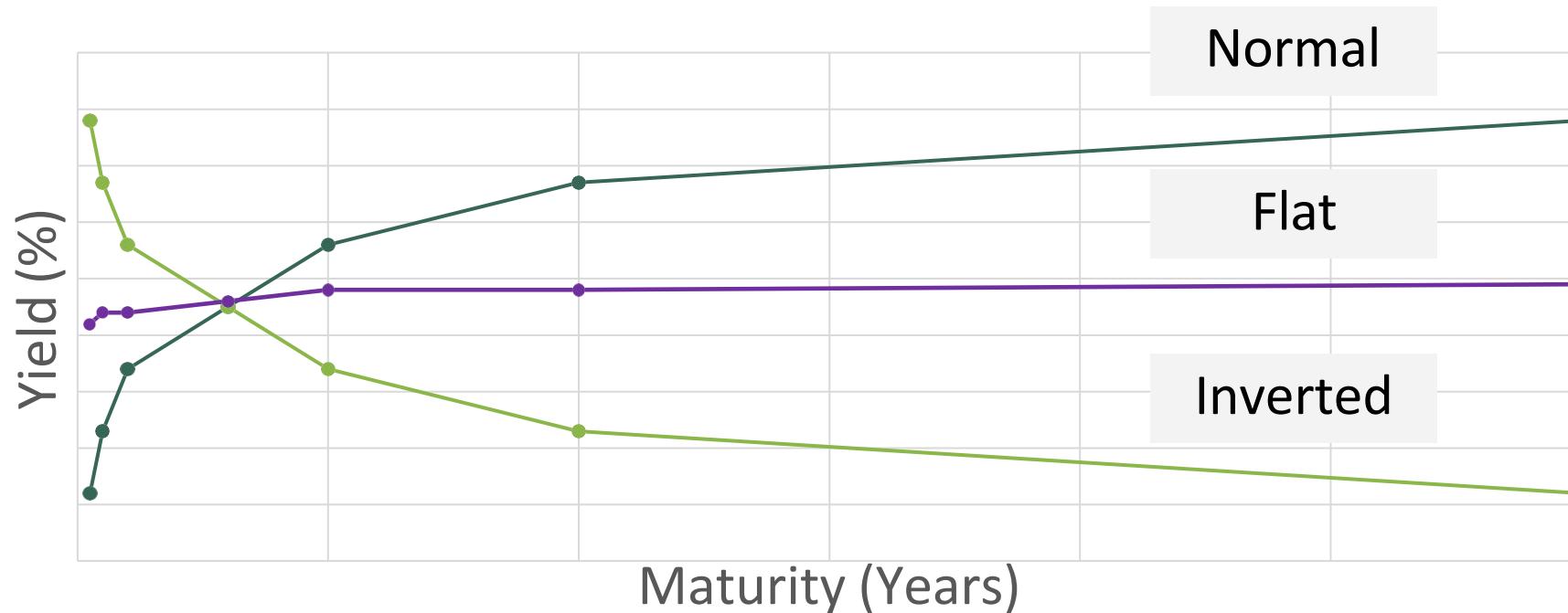
However, there are times when this is not true!

WHAT DETERMINES THE SHAPE OF THE YIELD CURVE?

- **Expectations Hypothesis:** Equilibrium long-term rate is the rate long-term investors would expect to earn through successive investments in short-term bonds over the term to maturity of the long-term bond.
- **Liquidity Preference Hypothesis:** Lenders prefer short-term loans, and to induce them to lend long-term, it is necessary to offer higher yields.
- **Segmented Market Hypothesis:** Shape of the yield curve is a function of the policies of institutional investors/major financial institutions.
- Other forces?

DIFFERENT YIELD CURVES FOR DIFFERENT ENVIRONMENTS

- The Holy Grail of Investment Indicators?



- It is possible for long-term rates to fall below short-term rates. This is an “inverted yield curve.”
- Inverted yield curves have historically been associated with possible future recessions.

DIFFERENT YIELD ENVIRONMENTS CALL FOR DIFFERENT TERM STRUCTURES



Ladder

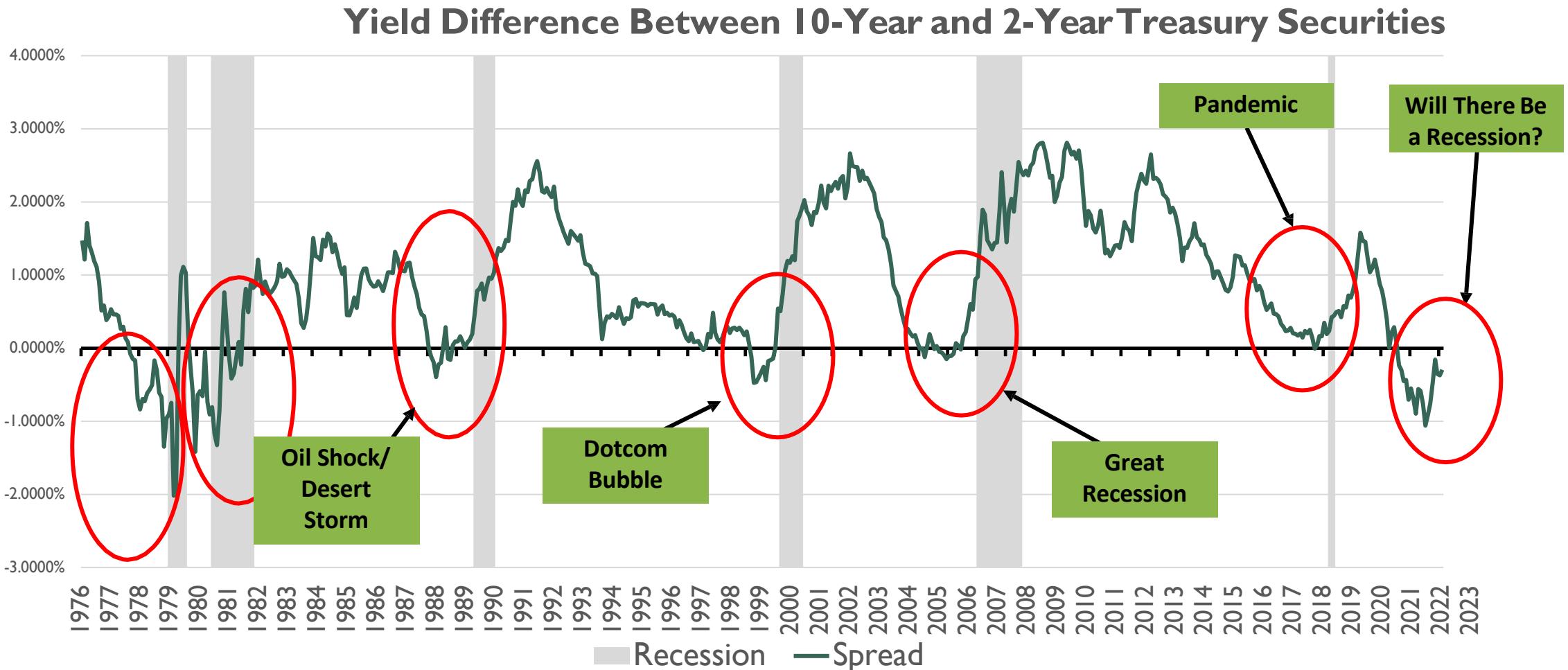


Bullet



Barbell

BEWARE OF THE INVERSION!



KEY CONCEPT #4: CALLABLE STRUCTURES

- **Callable is two securities**

1. Issuer sells fixed income security to investor

- Value = present value of stream of cash flows

2. Investor sells option to call to issuer

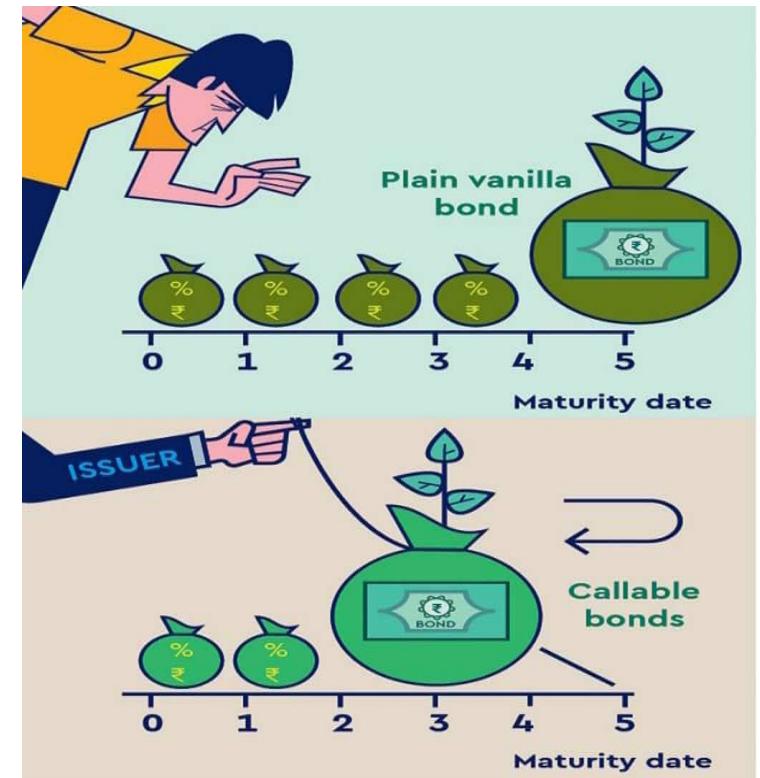
- Value = probability of being exercised based upon current yield curve, a rate of volatility, and time to exercise date

- **Lock-out period**

- Call protection; initial period during which issuer can't call bonds

UNDERSTANDING CALLABLE STRUCTURES

- **Federal Agency Callables:** Issuer has option to buy back the bond at a predetermined price and date
 - European—One time call
 - Bermudan—Callable quarterly or semi-annually
 - American—Callable any time after a specific date
 - Canary—Callable until first step, then becomes bullet
 - Verde—Bermuda to first step, callable on step dates
- Make-whole calls—not a federal agency callable!
- When do callables make sense?



CALLABLES AND DURATION

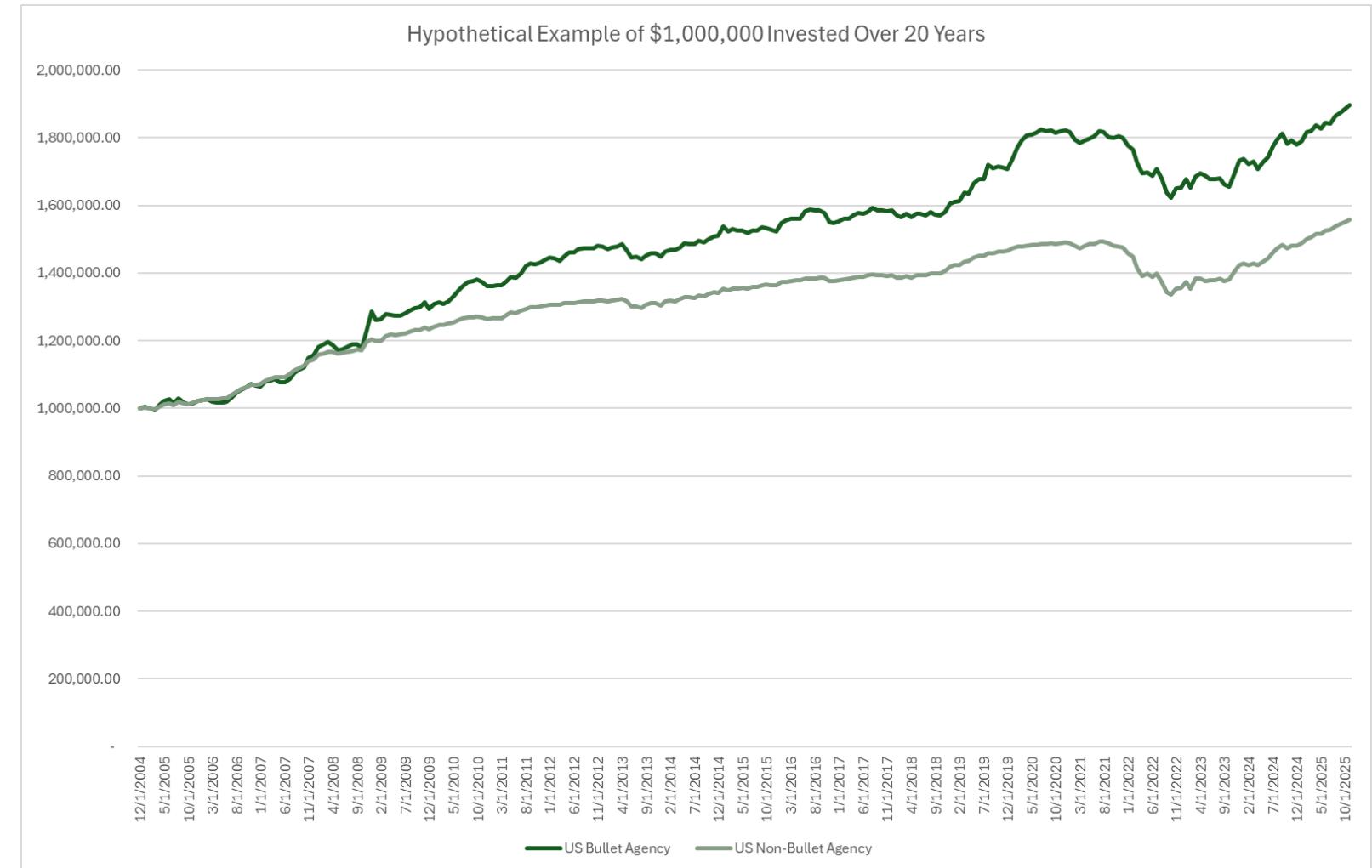
- **Call features reduce effective maturity of bond and therefore reduce effective duration**
- **Callable bonds have several possible durations**
 - Duration to maturity
 - To final maturity (option not expected to be exercised)
 - Duration to call
 - To the first call date (option expected to be exercised)
 - Effective duration is option adjusted
 - Duration of bond expressed as level of interest rate volatility and resulting probability option will be exercised
 - Effective duration lies between duration to first call and duration to maturity

HOW ARE CALLABLES PRICED?

- Priced at spread to Treasuries
- Yield to Worst (YTW)
 - Which is lesser: Yield to Maturity or Yield to Call
- Option Adjusted Spread (OAS)
 - Creates synthetic “bullet”
 - Compare spread from OAS analysis to historical spread for non-callable securities from same market sector

AGENCY CALLABLES vs. NON-CALLABLES

- Historically, non-callable agencies have outperformed callable agencies over time.
- Over the past 20 years the earnings difference for an agency bullet versus a callable agency portfolio was about \$338,305 per \$1,000,000 invested.



Source: Bloomberg ICE BofA US Bullet Agency Index (G0PB) and ICE BofA US Non-Bullet Agency Index (G0PC).

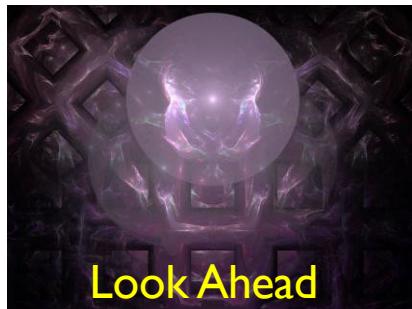
KEY CONCEPT #4: INVESTING IN CREDIT

- WHAT: Exposure to non-governmental issuers
- WHY: Investors receive higher yields when they purchase securities from lower rated issuers
 - Agencies vs. Treasuries
 - Corporates vs. Agencies
 - “A” vs. “AAA”
- Credit ratings change over time
- Yield spreads among different quality and sectors vary over time

BOND CREDIT RATINGS

Moody's		S&P		Fitch		Rating description
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		
Aa2		AA		AA		High grade
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	
A2		A		A		Upper medium grade
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		
Baa2	P-3	BBB	A-3	BBB	F3	Lower medium grade
Baa3		BBB-		BBB-		

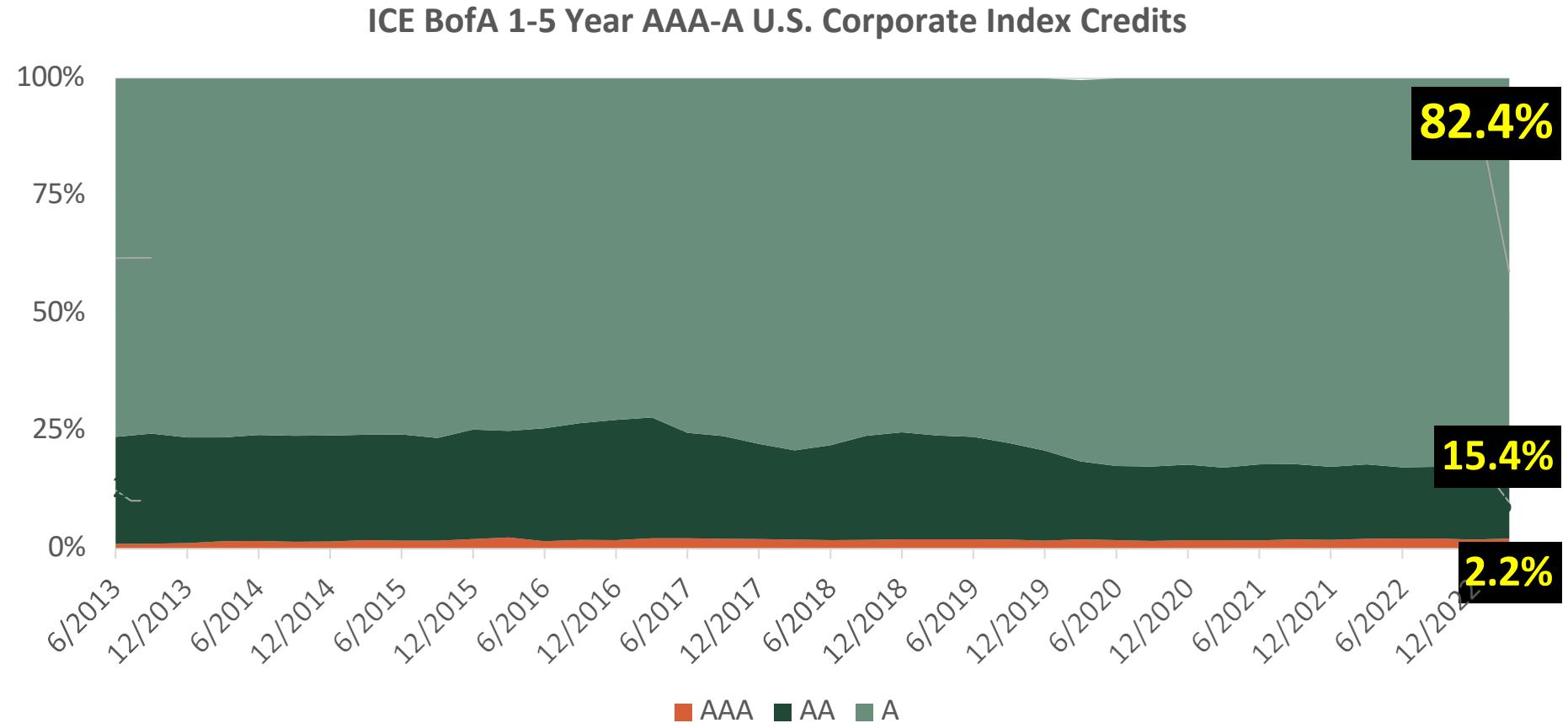
Source: Standard & Poor's, Moody's, Fitch Ratings



- **Credit Outlook:** Evaluates the financial condition of the issuer in relation to the economic environment
- **Credit Watch:** Formal warning of the possible deterioration or upgrade of the financial strength and ability of the issuer to meet their debt obligations

CREDITS ELIGIBLE FOR CA LOCAL GOVERNMENTS

Few credit options
for investors
limited to rating
categories of AA
or higher.

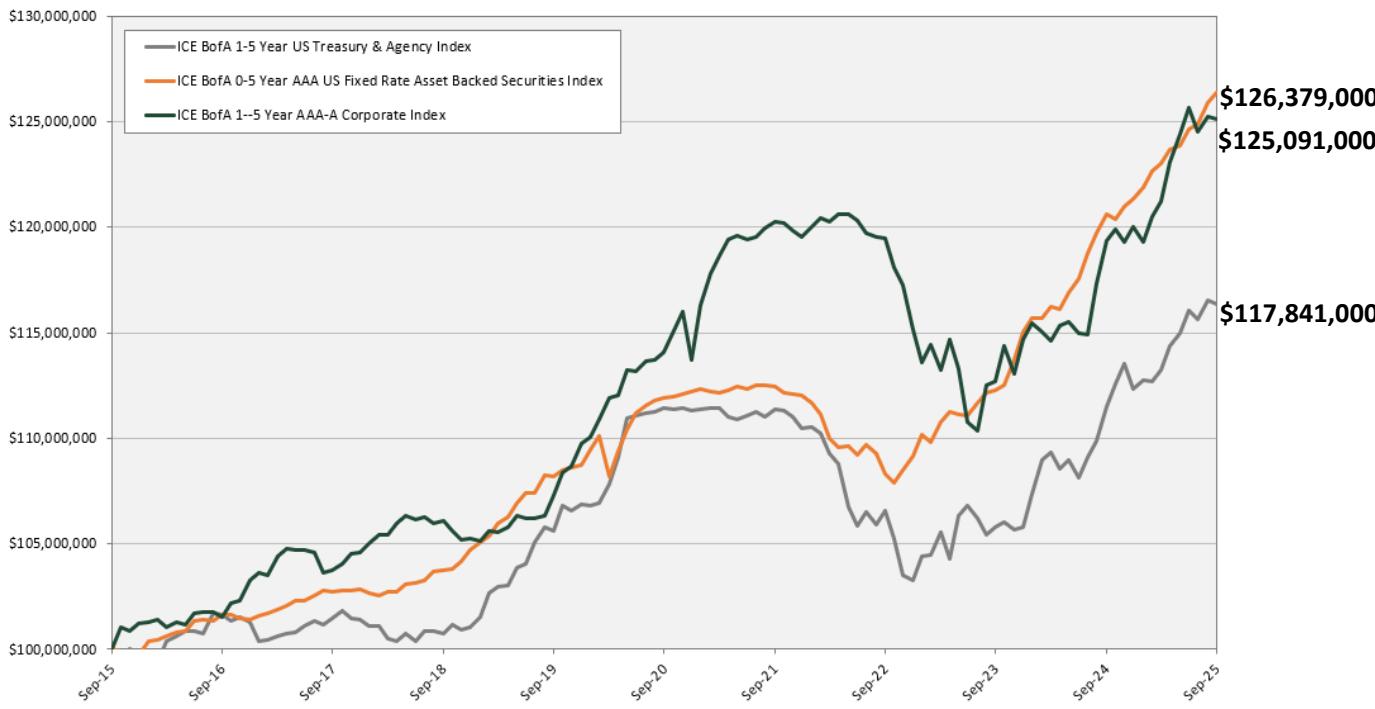


QUANTITATIVE RISKS

- Examples:
 - Liquidity
 - Solvency
 - Leverage
 - Profitability
 - Operating Efficiency
 - Industry Specific Ratios
(e.g., reserve replacement ratio)
- Sources for Financial Evaluation:
 - 10K/10Q/20F
 - Balance Sheet, Income Statement, Statement of Cash Flows, Statement of Shareholder's Equity
 - Footnotes
 - Management Discussion and Analysis
 - Auditor's Report / Opinion
 - Bloomberg, FactSet, Reuters
 - Rating Agencies
 - Industry and Company Websites

WHY INVEST IN CREDIT SECURITIES?

HYPOTHETICAL EXAMPLE: GROWTH OF \$100 MILLION OVER 10 YEARS



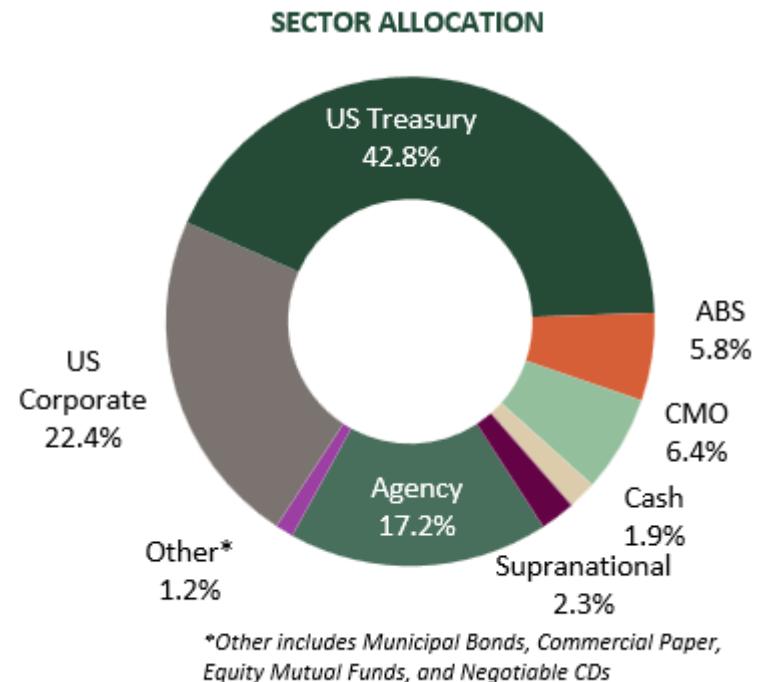
Value on 9/30/2025 of \$100 Million invested on 9/30/2015

	9/30/2025	Annualized Return
I-5y Treasury & Agency	\$117,841,000	0.84%
0-5y AAA Fixed Rate ABS	\$126,379,000	1.37%
I-5y AAA-A Corporate	\$125,091,000	1.61%

Source: Bloomberg. Graph demonstrating the performance of commonly used benchmarks among our clients. Historical benchmark performance data for the 1-5 year Treasury & Agency, 0-5 year AAA Fixed Rate ABS, and 1-5 year AAA-A Corporate indices sourced from Bloomberg AIM. Index returns assume reinvestment of all distributions. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index. Please see important hypothetical disclosures at the end of this presentation.

CREDIT SECURITIES CONTINUED

- Rotating sectors can enhance return.
- Constant monitoring of spreads between sectors identifies opportunities.



Sample asset allocation. For illustrative purposes only.

KEY CONCEPT #6: BENCHMARKING

What is Benchmarking?

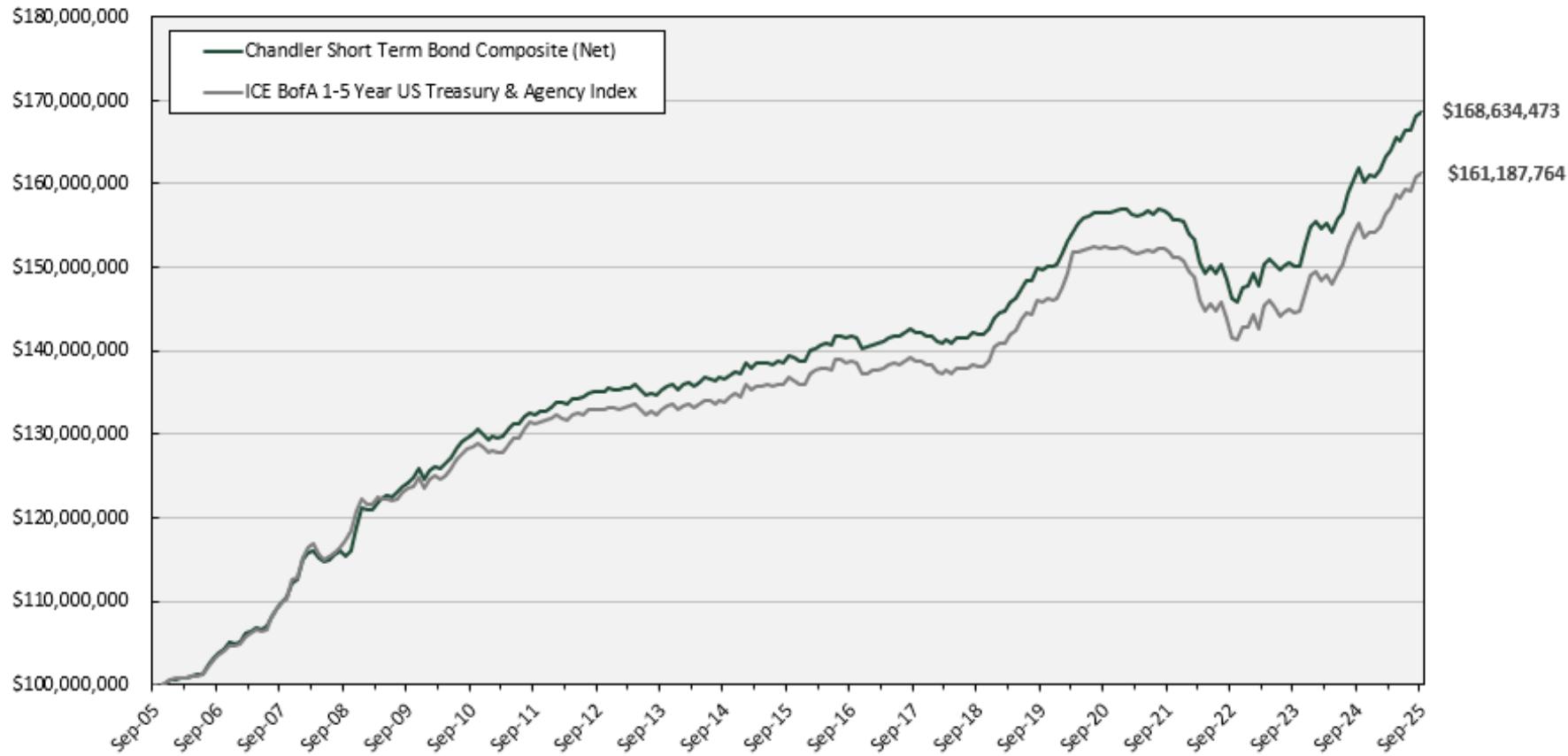
Benchmarks serve as a critical standard for measuring an asset's value or other metrics over time. It is a comparative tool for investors.

- Some examples of top fixed income benchmarks include the:
 - Bloomberg Aggregate Bond Index (known as the Agg)
 - Bloomberg Capital U.S. Corporate High Yield Bond Index
 - ICE BofA U.S. Treasury Bond Index



HISTORICAL INDEX PERFORMANCE

Hypothetical Example: Investment of \$100 Million Over 20 Years Generated \$7.2 Million in Excess Returns



Source: Bloomberg. Graph demonstrating the performance of commonly used benchmarks among our clients. Historical benchmark performance data for the 1-5 Year Treasury & Agency indices sourced from Bloomberg AIM. Index returns assume reinvestment of all distributions. Historical performance results for investment indexes do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index. Past performance is not indicative of future performance. Please see important hypothetical disclosures at the end of this presentation.

BENCHMARKING CONTINUED

Why do Benchmarking?

1. Serves as a Performance Measurement

Without a benchmark, it's hard to determine whether returns are due to skill or market conditions.

Example:

Q: If your portfolio returns 4%, is that good?

A: It depends on the context – did the benchmark return 3%, 4%, or 5%?

2. Proves Risk Alignment

Fixed income portfolios can vary widely in duration, credit quality, and sector exposure and a benchmark can ensure the portfolio risk profile aligns with its stated objectives.

BENCHMARKING CONTINUED

What else about Benchmarking?

- Creates Accountability, Transparency & Guides Portfolio Strategy
 - They allow clients, boards, or regulators to see if the manager is adding value versus a passive alternative.
- Offers Opportunity for Attribution Analysis
 - What factor(s) drove the excess over a benchmark?
 - Was it duration positioning, sector allocation, security selection, dumb luck, etc.?

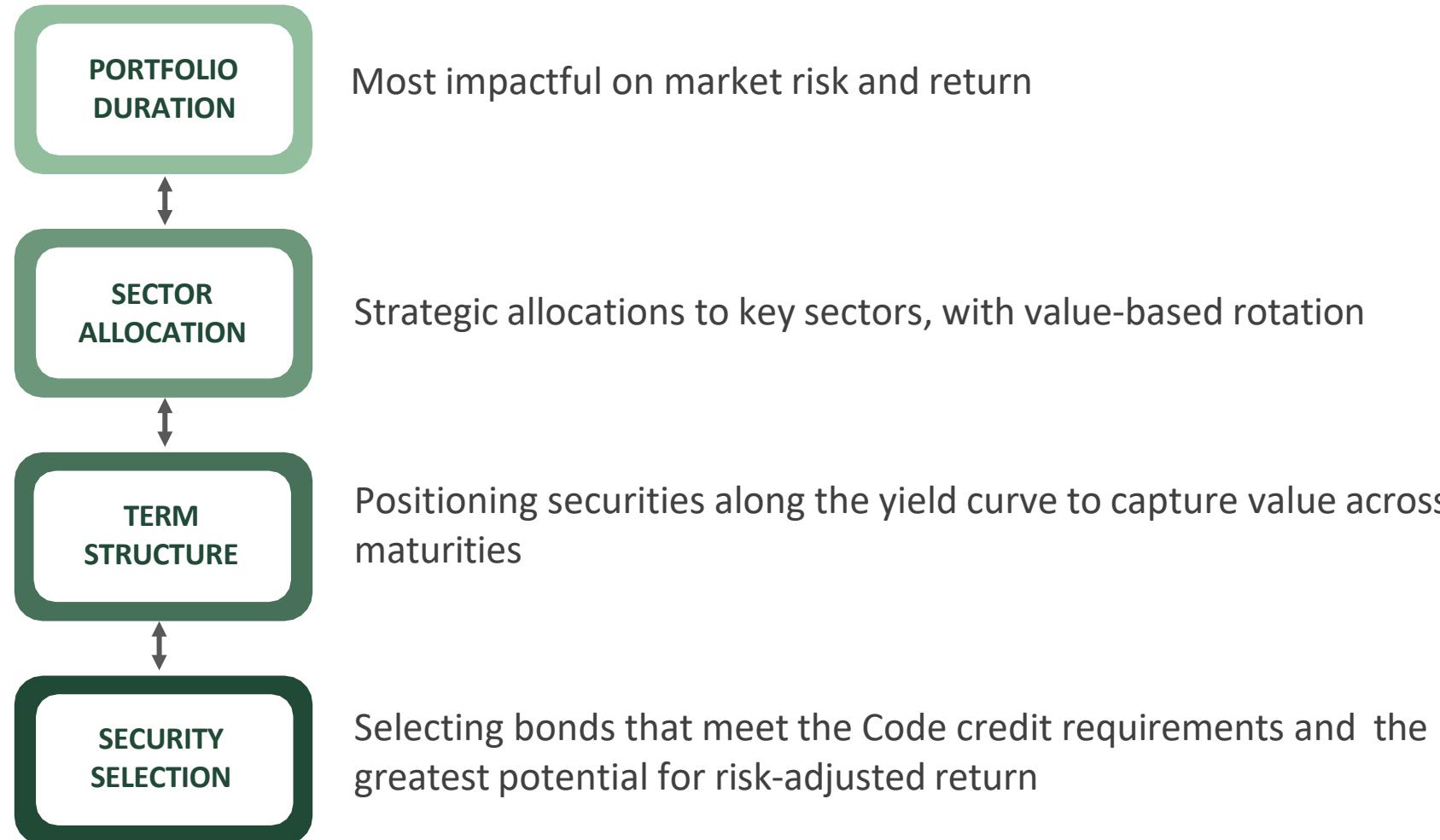




FINAL THOUGHTS

Putting It Into Context

KEY ELEMENTS TO BUILD PORTFOLIOS



RISK MANAGEMENT

- Portfolio management is a specialized form of risk management
- Identifying risks and determining risk exposures
 - **Liquidity risk:** having funds available when needed for disbursements
 - **Credit risk:** deteriorating credit quality impacting the value of the bond, its credit rating and potential for default
 - **Market Risk:** change in interest rates that impacts value of security
 - Inverse relationship
 - The higher the duration, the greater the volatility
- Other risks
 - Reinvestment risk
 - Headline risk - political

QUESTIONS?

STEVE HUNTLEY
Senior Portfolio Strategist
Chandler Asset Management



GIPS® Compliant Verification Statement



Verification Report

Chandler Asset Management, Inc.

We have verified whether Chandler Asset Management, Inc. (the "Firm") has, for the periods from July 1, 1997 through December 31, 2023, established policies and procedures for complying with the Global Investment Performance Standards (GIPS®) related to composite and pooled fund maintenance and the calculation, presentation, and distribution of performance that are designed in compliance with the GIPS standards, as well as whether these policies and procedures have been implemented on a firm-wide basis. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Firm's management is responsible for its claim of compliance with the GIPS standards and the design and implementation of its policies and procedures. Our responsibilities are to be independent from the Firm and to express an opinion based on our verification. We conducted this verification in accordance with the required verification procedures of the GIPS standards, which includes testing performance on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, for the periods from July 1, 1997 through December 31, 2023, the Firm's policies and procedures for complying with the GIPS standards related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards, and
- Implemented on a firm-wide basis.

This report does not relate to or provide assurance on any specific performance report of the Firm or on the operating effectiveness of the Firm's controls or policies and procedures for complying with the GIPS standards.

ACA Group

ACA Group, Performance Services Division

January 3, 2025

GIPS® Composite Report: Short Term Bond

Annual Rates of Return 2014 through 2024

Year End	Returns		3 Year Annualized		Dispersion		Assets			
	Total Gross	Total Net	Index	Standard Deviation Composite	Index	Asset Wtd Std. Dev.	Number of Portfolios	Composite (MM)	% of Firm Assets	Firm (MM)
2014	1.42%	1.17%	1.24%	0.96%	0.99%	0.07%	40	2,325	26.14%	8,894
2015	1.15%	0.90%	0.96%	1.11%	1.18%	0.07%	44	3,403	28.97%	11,747
2016	1.30%	1.04%	1.08%	1.24%	1.39%	0.05%	49	4,131	32.07%	12,882
2017	1.08%	0.83%	0.67%	1.19%	1.34%	0.11%	48	3,783	27.62%	13,698
2018	1.53%	1.27%	1.55%	1.22%	1.40%	0.05%	48	3,485	21.06%	16,551
2019	4.55%	4.29%	4.19%	1.22%	1.39%	0.19%	55	5,199	26.59%	19,552
2020	4.43%	4.17%	4.22%	1.32%	1.70%	0.11%	59	6,234	28.05%	22,227
2021	-0.93%	-1.17%	-1.09%	1.33%	1.65%	0.04%	72	7,294	28.29%	25,785
2022	-4.82%	-5.06%	-5.25%	2.22%	2.42%	0.15%	75	8,221	28.70%	28,641
2023	4.83%	4.57%	4.32%	2.72%	2.86%	0.10%	81	9,207	25.72%	35,804
2024	3.86%	3.61%	3.42%	3.10%	3.25%	0.10%	92	10,538	25.34%	41,585

1. Chandler Asset Management is an independent investment adviser registered as such with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Registration with the SEC does not imply a certain level of skill or training. Since 1988, Chandler Asset Management has provided fixed income investment management services to the public sector, as well as to foundations, endowments, individuals and corporations. A complete list and description of all of the firm's composites is available upon request.
2. The Short Term Bond Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the ICE BofA 1-5 Year US Treasury & Agency Index and a maximum final stated maturity of individual securities of five years. The minimum account size required to be included in this composite is \$2 million. This composite was created in September 1995 and inceptioned September 1995. The name of this composite was changed from 1-5 Year Government Fixed Income effective September 30, 2009.
3. The ICE BofA 1-5 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than five years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider.
4. Valuations are computed and performance reported in U.S. Dollars.
5. Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not indicative of future results. Fees charged by Chandler Asset Management will reduce performance.
6. Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the actual maximum applicable fee of 0.25%, which is reflective of our current fee schedule for this composite. These monthly returns are then geometrically linked to produce annual returns which are presented before custodial fees but after management fees and all trading expenses. Fees are negotiable and additional information regarding Chandler's fees is included in our Part 2A of Form ADV.
7. Dispersion is calculated using the asset weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. For years when less than six portfolios were included in the composite for the full year, no dispersion measure is presented. The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period.
8. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.
9. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.

Chandler Asset Management has been independently verified by ACA Performance Services for the period of July 1, 1997 through December 31, 2023. The verification report is available upon request. A Firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Source ICE Data Indices, LLC ("ICE"), used with permission. ICE permits the use of ICE Indices and related data on an "as is" basis; ICE, its affiliates and their respective third party suppliers disclaim any and all warranties and representation, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE data, its affiliates or their respective third-party providers guarantee the quality, adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and licensee's use is at licensee's own risk. ICE data, its affiliates and their respective third party do not sponsor, endorse, or recommend Chandler, or any of its products or services.

DISCLOSURES

©2024 Chandler Asset Management, Inc., An Independent Registered Investment Adviser.

This report is being provided for informational purposes only. No investment decision should be made based solely on the information provided herein. All investments involve risk, including loss of principal invested. The strategies referenced may not be suitable for all investors. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the strategies. While not guaranteed as to accuracy or completeness, some of the information has been obtained from sources we believe to be reliable. Opinions expressed herein are subject to change without notice. There can be no assurance that an account or specific investment product will be able to achieve its investment objective. No guarantee of investment performance is being provided and no inference to the contrary should be made.

Any forecasts, forward-looking statements and assumptions are inherently limited and should not be relied upon as an indicator of future results. Any opinions and views constitute judgments made by the author at the date of this presentation and may become outdated or superseded at any time without notice. Any statements concerning financial market trends are based on current market conditions, which will fluctuate.

Economic factors, market conditions and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. The data contained in this presentation is the property of those providers, which were obtained from sources believed to be reliable, but are subject to change at any time at the provider's discretion. Unless otherwise noted, Chandler is the source of data contained in this presentation.

Fixed Income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally must pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

References to specific securities are examples of securities held in a portfolio and are not intended to be, and should not be interpreted as an offer, solicitation, or recommendation to purchase or sell any financial instrument, an indication that the purchase of such securities was or will be profitable, or representative of the composition or performance of the portfolio. The information contained in this sample presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. Past performance is not indicative of future success.

Where listed, certain performance shown is hypothetical and does not represent actual trading in a client's account. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFIT OR LOSSES SIMILAR TO THOSE SHOWN. THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK AND DOES NOT TAKE INTO ACCOUNT THAT MATERIAL AND MARKET FACTORS MAY HAVE IMPACTED THE ADVISER'S DECISION MAKING IF THE ADVISER WERE ACTUALLY MANAGING CLIENT'S MONEY. NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL

TRADING RESULTS. It should not be assumed that investors who invest in Chandler Asset Management's Portfolios will be profitable or achieve the hypothetical performance results reflected or any corresponding index presented. Actual performance of and holdings and investment implementation in Chandler Asset Management's client accounts can materially differ from that of the hypothetical models presented herein and performance can be higher or lower than the results shown. Investors may have experienced investment results during the corresponding time periods that were materially different from those portrayed. The opinions referenced are as of the date of publication and are subject to change. Chandler Asset Management has discretion in the timing of trade execution and selection of securities traded and utilized in any client account, which can and will materially differ from the hypothetical simulated performance based upon a variety of factors, including the adviser's discretion to not follow any trading signal generated and to determine the timing and implementation of a trade (which can include securities other than those listed). There is a possibility of loss on all investments and investor principal is not guaranteed. Performance information provided should not be used in making investment decisions.

ICE BofA US Bullet Agency Index (GOPB)

ICE BofA US Bullet Agency Index is a subset of ICE BofA US Agency Index excluding all securities with embedded call or put options except those having passed their last exercise date.

ICE BofA US Optionable Agency Index (GOPC)

ICE BofA US Optionable Agency Index is a subset of ICE BofA US Agency Index including all securities with embedded call or put options except those having passed their last exercise date.

ICE BofA 1-5 Year US Treasury & Agency Index

The ICE BofA 1-5 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch).

ICE BofA 0-5 Yr AAA US Fixed Rate Asset Backed Securities Index

ICE BofA 0-5 Year AAA US Fixed Rate Asset Backed Securities Index tracks the performance of US dollar denominated investment grade fixed rate asset backed securities publicly issued in the US domestic market with an average life less than 5 years and rated AAA. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have a fixed rate coupon (including callable fixed-to-floating rate securities), at least one year remaining term to final stated maturity, at least one month to the last expected cash flow, an original deal size for the collateral group of at least \$250 million, a current outstanding deal size for the collateral group greater than or equal to 10% of the original deal size and a minimum outstanding tranche size of \$50 million for senior tranches and \$10 million for mezzanine and subordinated tranches. 144a securities qualify for inclusion in the Index.

ICE BofA 1-5 Year AAA-A US Corporate & Government Index

The ICE BofA 1-5 Year AAA-A US Corporate & Government Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational, and corporate securities. Qualifying securities must be rated AAA through A3 (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity and less than five years remaining term to final maturity, at least 18 months to final maturity at point of issuance, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion for US Treasuries and \$250 million for all other securities.

Source ICE Data Indices, LLC ("ICE"), used with permission. ICE permits the use of ICE Indices and related data on an "as is" basis; ICE, its affiliates and their respective third party suppliers disclaim any and all warranties and representation, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE data, its affiliates or their respective third-party providers guarantee the quality, adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and licensee's use is at licensee's own risk. ICE data, its affiliates and their respective third party do not sponsor, endorse, or recommend Chandler, or any of its products or services.



BREAK

SESSION THREE

California Government Code and Legal Investments



ANGEL HERNANDEZ
Deputy Executive Director
CDIAC



LAURA PARISI
City Treasurer
City of Laguna Beach

What We Will Cover:

Permissible Investments:

- Applicable Statutes
- Legal limitations

Practical Application:

- Discuss the purposes, risks and benefits of different investments in a portfolio
- Available public investment resources

Current public investment environment:

- How did we get here?
- Legislative efforts

Permissible Investments



California Government Code prescribes the types of investments and practices permitted after considering preserving principal and maintaining liquidity before seeking yield.

These statutes are intended to promote the use of reliable, diverse, and safe investments instruments for a prudently managed portfolio.

Permissible Investments: Local Agencies

GOVERNMENT CODE SECTION 16429.1-16429.4

Local Agency Investment Fund (LAIF) available to all local agencies

GOVERNMENT CODE SECTION 53600-53610

Applies to all local agencies that do not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body

GOVERNMENT CODE SECTION 53630-53686

Applies to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies

Permissible Investments

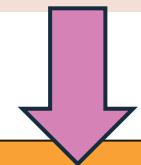
(cont.)

Applicable Government Code Sections:

- 16429.1 (LAIF)
- 53601 (Local Agencies – non pool)
- 53635 (Counties – pooled funds)
- 53651 (securities for deposits)

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2026)^A APPLICABLE TO ALL LOCAL AGENCIES^B

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.



INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOVT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations—CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper—Non-Pooled Funds ^F (under \$100,000,000 of investments)	397 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds ^F (min. \$100,000,000 of investments)	397 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper—Pooled Funds ^I	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^K	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^L	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^L	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	90 days ^M	20% of the base value of the portfolio	None ^N	53601(j)
Medium-Term Notes ^O	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20% ^P	Multiple ^{Q,R}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^S	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities ^T	5 years or less ^U	20%	"AA" rating category or its equivalent or better ^T	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^U	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^V	N/A	None	None	16340
Supranational Obligations ^W	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

Permissible Investments: Cross References

GOVERNMENT CODE SECTION 53601

This Section applies to local agencies that do not pool money with other local agencies other than local agencies that have the same governing body. However, refers to Section 53635 for local agencies that pool money in deposits or investment with other local agencies that have separate governing bodies.

GOVERNMENT CODE SECTION 53635.2

This section applies to the safekeeping of all money belonging to, or in the custody of, a local agency, those funds shall be deposited for safekeeping in state or national banks, public banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the treasurer or may be invested in the investments set forth in Section 53601.

GOVERNMENT CODE SECTION 53684 (a)

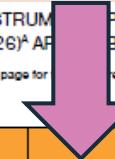
This Section for counties, a city and a county, or other local agency that pools funds, directs investment of excess funds which are not required for immediate use and are deposited with the County, pursuant to Section 53601 or 53635, or Section 20822 of the Revenue and Taxation Code.

Permissible Investments: Legal Limitations

MATURITY

- Most investments limited to a maximum maturity of five years.
- A few investments have shorter maximum maturities.
- The term or remaining maturity is measured from the settlement date to final maturity.

ALLOWABLE INVESTMENT INSTRUMENTS
CODE (AS OF JANUARY 1, 2026)^A APPROVABLE
BY STATE GOVERNMENT
TO ALL LOCAL AGENCIES^B
See "Table of Notes for Figure 1" on the next page for
related to this figure.



INVESTMENT TYPE	MAXIMUM Maturity ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOVT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper—Non-Pooled Funds ^F (under \$100,000,000 of investments)	397 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds ^I (min. \$100,000,000 of investments)	397 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper— Pooled Funds ^J	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^K	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^L	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^L	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securitized Lending Agreements	90 days ^M	20% of the base value of the portfolio	None ^N	53601(j)
Medium-Term Notes ^O	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20% ^P	Multiple ^{Q,R}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^S	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities ^T	5 years or less ^U	20%	"AA" rating category or its equivalent or better ^V	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^U	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^V	N/A	None	None	16340
Supranational Obligations ^W	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

Permissible Investments: Legal Limitations

(cont. 2 of 3)

CREDIT QUALITY

- Some investments statutorily require a minimum credit rating:
 - Commercial Paper
 - Medium-Term Notes
 - Mortgage Pass-Through and Asset Back Securities (53601(o))
 - Supranationals
- Rating from a NRSRO

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2026)^a APPLICABLE TO ALL LOCAL AGENCIES

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.



INVESTMENT TYPE	MAXIMUM MATURITY ^b	MAXIMUM SPECIFIED % OF PORTFOLIO ^c	MINIMUM QUALITY REQUIREMENTS	GOVT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations—CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^d	None	53601(g)
Commercial Paper—Non-Pooled Funds ^e (under \$100,000,000 of investments)	397 days or less	25% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds ^e (min. \$100,000,000 of investments)	397 days or less	40% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53601(h)(2)(c)
Commercial Paper—Pooled Funds ^e	270 days or less	40% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^k	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^l	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^l	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^m	20% of the base value of the portfolio	None ⁿ	53601(j)
Medium-Term Notes ^o	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20% ^p	Multiple ^{q,r}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^s	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities ^t	5 years or less ^u	20%	"AA" rating category or its equivalent or better ^v	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^w	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^x	N/A	None	None	16340
Supranational Obligations ^y	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

Permissible Investments: Legal Limitations (cont. 3 of 3)

PORTFOLIO CONCENTRATION

- Statutory limits on the percentage of concentration of certain securities as well as issuer.
- For example: Mutual Funds (along with MMMF) limited to 20% of portfolio, but not more than 10% in any one Mutual Fund.

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE
CODE (AS OF JANUARY 1, 2026)^a APPLICABLE TO ALL
GOVERNMENT
AGENCIES^b

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.



INVESTMENT TYPE	MAXIMUM MATURITY ^c	MAXIMUM SPECIFIED % OF PORTFOLIO ^d	MINIMUM QUALITY REQUIREMENTS	GOVT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^e	None	53601(g)
Commercial Paper—Non-Pooled Funds ^f (under \$100,000,000 of investments)	397 days or less	25% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds ^f (min. \$100,000,000 of investments)	397 days or less	40% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53601(h)(2)(c)
Commercial Paper— Pooled Funds ⁱ	270 days or less	40% of the agency's money ^g	Highest letter and number rating by an NRSRO ^h	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^k	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^l	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^l	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^m	20% of the base value of the portfolio	None ⁿ	53601(j)
Medium-Term Notes ^o	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20% ^p	Multiple ^{o, q}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^r	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities ^t	5 years or less ^u	20%	"AA" rating category or its equivalent or better ^v	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^u	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^w	N/A	None	None	16340
Supranational Obligations ^x	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

Practical Application

- Purposes, risks and benefits of different investments in a portfolio
- Available public investment resources

US Government Issued or Backed Instruments

US Government issued or backed instruments authorized in California Code offer a variety of structures and types to meet investor needs.

Generally speaking, the major advantage of a US Government issued or guaranteed instrument is safety of principal and income, without taking credit risk.

However, Government Securities are still subject to interest rate risk, convexity risk, market liquidity risk (in certain situations) and variability of cash flows on certain structures.

CGC Sections 53601(b),(f),(o),(j),& (q)

CGC Sections 53601.8 & 53635.8**

**FDIC and NCUA Federal Insurance

Local Government Issued or Backed Instruments

Local Government Issued Instruments authorized in California Code also offer a variety of structures and types to meet investor needs.

Local Government Issued Instruments offer a higher degree of principal and income safety than corporate issued instruments, as they are usually backed by general taxing authority or revenues from local government projects.

However, Local Government instruments are subject to credit risk, interest rate risk, convexity risk, market liquidity risk and variability of cash flows on certain structures.

CGC Sections 53601(a)(c)(d)&(e)

CGC Sections 16429.1, 27133 & 53601(p)(r)**

**various risks apply to local government managed funds

Credit Instruments

Generally, a credit instrument is one that relies on the general or limited obligation to pay of a non-government issued-backed entity.

Credit instruments carry the risk of loss of principal and income due to default risk.

Credit instruments are subject to credit risk, interest rate risk, convexity risk, market liquidity risk, and headline/reputational risk.

CGC Sections 53601(g)(h),(i),(k)(l)(n)(o) & 53635(a)

Credit Ratings and Research

California Government Code relies on credit ratings issued from Nationally Recognized Statistical Ratings Organizations (NRSRO's) to apply credit quality standards for purchase of investment instruments and securities by local government agencies. Must be registered with and recognized by the SEC.

Examples are:

- Moody's Investor Services
- S&P Global Ratings
- Fitch Ratings
- Kroll Bond Rating Agency

However, you should never rely solely on credit ratings alone to determine an instrument's safety and performance.

Purpose, Risk, and Benefits

Government Code establishes the **investment objectives: Safety, Liquidity, and Yield.**

Government Code states the types of investments and practices permitted after considering S-L-Y.

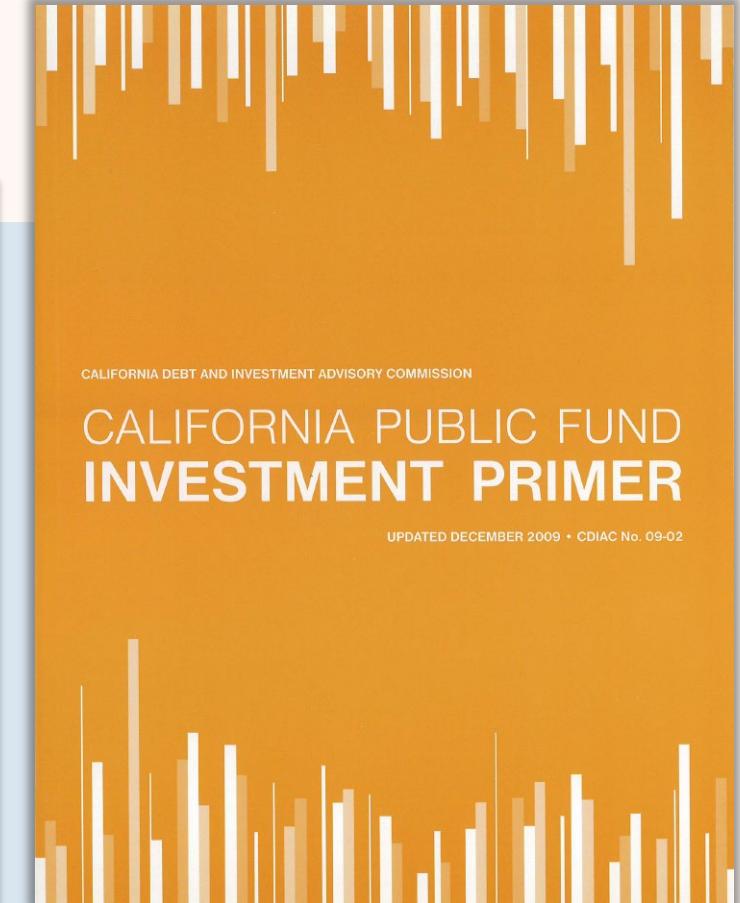
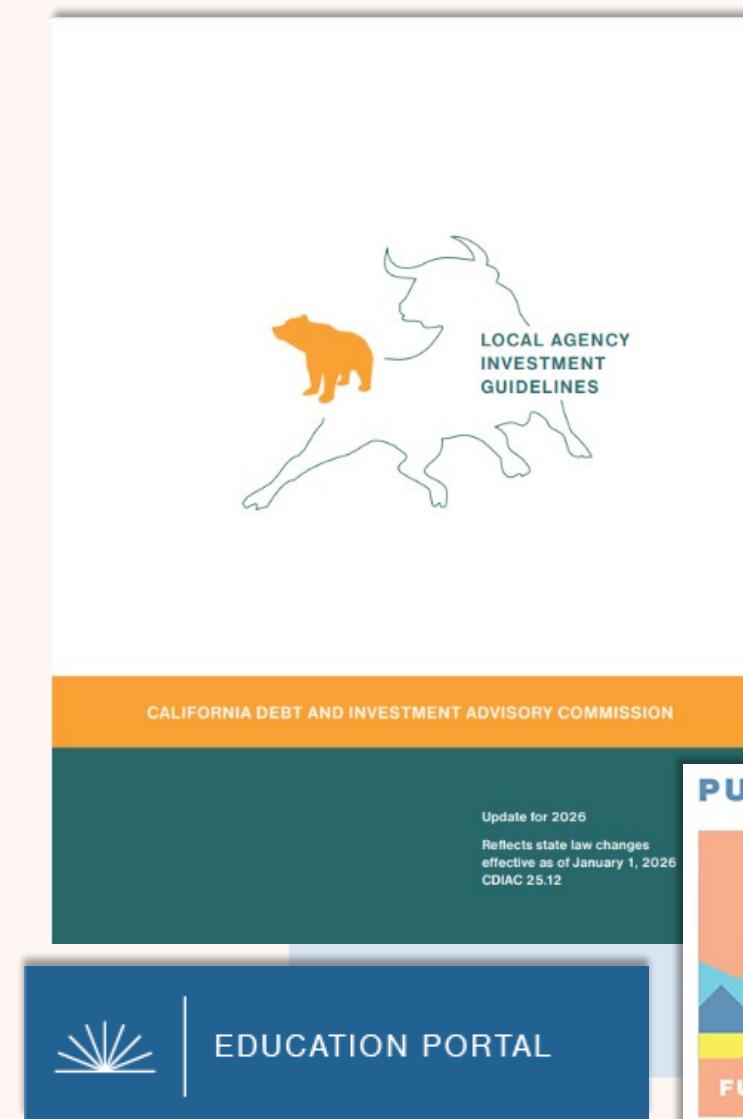
Proper structure and diversification promote the use of reliable, diverse, and safe investments for a prudently managed portfolio that instills public trust.

Session 5 today addresses portfolio structure and diversification.

Practical Application: Resources

CDIAC INVESTMENT RESOURCES:

- *Local Agency Investment Guidelines (LAIG)*
- *California Public Fund Investment Primer*
- CDIAC Education Portal



Practical Application: Resources

(cont. 2 of 2)



II. K Are bonds issued by departments and financing authorities of the State of California permissible investments for local agencies? [Section 53601(c)]

Securities issued by the State of California are permissible investments for local agencies under Section 53601(c). However, questions arise when considering whether bonds issued by departments or financing authorities of the State are also permissible under this section.

MINIMUM LEGAL REQUIREMENTS:

Section 53601(c) permits a local agency to invest in 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.

CONSENSUS RECOMMENDATION:

There are two conditions that a bond could meet to be a permissible investment under Section 53601(c). The first part of Section 53601(c), "state warrants, treasury notes and bonds of this state", refers to bonds issued by the State of California, for instance, general obligation bonds. This was the operative code section prior to the state's issuance of revenue bonds.

The last part of the code section broadens the definition of permissible investments to include, "bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or a department, board, agency, or authority of the state". This describes state-issued revenue bonds. Issuance by a state authority or instrumentality alone is inadequate to meet the conditions in Section 53601(c) as the source of revenue for repayment must meet the qualifier included in the code section. For a security issued by a state authority or department, are the underlying agreements considered property owned/controlled/operated by the state? In general, if a public agency intends to purchase bonds issued by a state authority or department that are not clearly revenue bonds, an agency should consult counsel on the permissibility of such an investment.



Local Agency Investment Guidelines (LAIG)

- Provides references and recommendations for interpreting and applying California statute to common public fund investment topics related to local agencies.
- Provides information on recent state law changes.
- Updated annually.
- Latest update, January 2026.

Current Investment Environment

- How did we get here?
- Legislative efforts

Current Investment Environment

The 1994 Orange Co. Bankruptcy is the single event that has shaped public fund investing in California.

LEGISLATIVE RESPONSE

Investment policy, quarterly reporting to governing board, Treasury Oversight Committees (Counties only), delegation of investment authority to county treasurer, established qualifications for appointment or election as county treasurer or county auditor. Legislative changes are ongoing.

BEST PRACTICE DEVELOPMENT

Local Agency Investment Guidelines (LAIG), first edition published October 1996. Guidelines were developed to assist local agencies in meeting new statutory expectations and requirements. Best practices and consensus recommendations updated annually.

RESOURCES

In 1996, the Legislature expanded CDAC's advisory responsibilities to include public fund investments. CDIAC has developed the LAIG and the California Public Fund Investment Primer as well as other Issue Briefs on investment related topics.

Changes to Investment Code

- Codes change to adapt to market practices
- Organizations such as CMTA, CACTTC, CSFMO, and League of California Cities lead legislative efforts
- CDIAC is a resource to both the professional organizations and legislative staff
- CDIAC tracks Federal and State legislation that impacts public investments
- Investment legislative and regulatory updates are included in LAIG update

DEBT LINE

State Legislation Affecting State and Local Governments								
LEG TYPE	BILL NO.*	AUTHOR	TITLE	INTRODUCED	LAST AMENDED	LAST ACTION	LAST COMMITTEE	STATUS**
Bonds	AB 48	Alvarez	Education finance: postsecondary education facilities; College Health and Safety Bond Act of 2026	12/2/2024	6/5/2025	Senate Rules	Active	
Public Finance	AB 407	Jackson	California Pollution Control Financing Authority	2/4/2025	5/23/2025	Assembly Suspense File	Active	
Public Finance	AB 417	Carrillo	Local finance: enhanced infrastructure financing districts: community revitalization and investment authorities	2/5/2024	6/19/2025	Senate Third Reading	Active	
Bonds	AB 590	Lee	Social Housing Bond Act of 2026	2/12/2025	3/3/2025	Assembly Housing and Community Development	Active	
Other	AB 699	Stefani	Elections: local tax measures	2/14/2025	7/15/2025	Senate Appropriations	Active	
Bonds	AB 736	Wicks, Haney, and Quirk-Silva	The Affordable Housing Bond Act of 2026	2/18/2025	6/4/2025	Senate Rules	Active	
Bonds	AB 905	Pacheco	State general obligation bonds: disclosure requirements					
Bonds	AB 939	Schultz	The Safe, Sustainable Traffic-Reducing Transportation Bond Act of 2026					
Bonds	SB 417	Cabaldon	The Affordable Housing Bond Act of 2026					
Bonds	SB 492	Menjivar	Youth Housing Bond Act of 2025					

INSIDE THIS ISSUE

Data Corner - Top Municipal Financing Participants: First Six Months of CY 2025	2
Introducing Debt Line's New Look!	4
Annual Issuance Reporting Requirements	5
Chat Data Portal Tips	7
Legislation Affecting State and Local Governments	8
Save the Date	9
Regulatory Activity Calendar	11

Recent Changes to Investment Code: SB 858, *Local Government Omnibus Act of 2025*

- SB 858 amends Gov. Code 53601(h) to increase the maximum maturity for prime quality commercial paper from 270 days to up to 397 days.
- Effective 1/1/2026
- Note: This change allows purchase of 4(a)(2) and 144A private placement Commercial Paper beyond the 270-day limit imposed by the 3(a)(3) exemption.

Recent Changes to Investment Code: **SB 595, Local Government: Investments and Financial Reports**

- Amends Gov. Code section 53601(h) to extend the authority for local agencies with \$100 million or more in investment assets to invest up to 40% of their funds in eligible commercial paper until January 1, 2031. Also aligns with changes made by SB 858, allowing a permanent increase in the maximum maturity of prime quality commercial paper to 397 days, even after the January 1, 2031, sunset date set by SB 595.
- Amends Gov. Code section 53601.6 to extend a local agency's authority to invest in securities issued by, or backed by, the United States government that could result in zero-interest accrual if held to maturity, to January 1, 2031.
- Amends Gov. Code section 53895 to revise the requirements for local agency financial transactions reports to the State Controller by imposing penalties if the required reports are not filed within 10 months after the end of the fiscal year or by the State Controller's deadline, whichever is later.
- Effective 1/1/2026

Recent Changes to Government Code: SB 827, Local Agency Officials: Training

Expands training requirements for local agency officials in California:

- Ethics training must now be completed within six months of starting service (previously one year).
- Public agencies must maintain and publicly disclose training records for at least five years, with instructions on how to request training records posted on their website beginning July 1, 2026
- Establishes a biennial two-hour fiscal and financial training requirement for officials of cities, counties and special districts including members of the legislative body, elected officers, appointed officials with financial responsibilities and other agency executives.
- The training specified in the bill covers a wide variety of fiscal and financial topics including capital financing and debt management, pensions and other postemployment benefits, cash management and investments, the prudent investor standard, the ethics of safeguarding public resources, municipal budgets and budget processes, and financial reporting and auditing.
- Effective 1/1/2026

Investment Resources

California Debt and Investment Advisory Commission (homepage) www.treasurer.ca.gov/cdiac

Local Agency Investment Guidelines www.treasurer.ca.gov/cdiac/guideline.pdf

Debt Line (includes Legislative Update) www.treasurer.ca.gov/cdiac/debtpubs/debtline.asp

California Public Fund Investment Primer www.treasurer.ca.gov/cdiac/invest/primer.pdf

Education Portal (investment webinar replays) www.edportal.treasurer.ca.gov

California Municipal Treasurers Association (CMTA) www.cmta.org

California Association of County Treasurers and Tax Collectors (CACTTC) www.cacttc.org

Government Investment Officers Association (GIOA) www.gioa.us

Government Finance Officers Association (GFOA) www.gfoa.org

QUESTIONS?



ANGEL HERNANDEZ

Deputy Executive Director
CDIAC

angelica.hernandez@treasurer.ca.gov



LAURA PARISI

City Treasurer
City of Laguna Beach
lparisi@lagunabeachcity.net

SESSION FOUR

Investment Policy and Objectives



DEBORAH HIGGINS

President
Higgins Capital Management



JOHN JOHNSON

*Retired Assistant Auditor-
Controller/Treasurer/Tax Collector
County of San Bernardino*

Session Overview

- Identify resources
- Explain the importance of having an investment policy
- Review investment objectives
- Identify best practices for developing your investment policy
- Review legislative changes
- Summarize the CMTA Certification Process
- Identify common IPS mistakes
- Review IPS structure & other considerations

Resources



CA Government Code, CDIAC, and CMTA

CA Code
53600 et al

CDIAC

CMTA

Local Agency
Investment Guidelines
LAIG
53600 see p. 72
(PDF starts on p. 77)

Investment Policy
Certification

CMTA Program &
Application

Investment Policy Statement (IPS)

- Purpose
- Objectives
- Importance
- Who cares?
- Key elements for best practices

Investment Policy Statement

- The purpose of your Investment Policy Statement is to establish guidelines for the individual(s) who is (are) responsible for the public agency's Investment Program.
- The Investment Policy identifies those investments authorized for a particular local agency within the legal parameters outlined in the CA Government Code.
- It is intended to be a roadmap for the prudent investor in managing the Investment Program towards the desired results within a legal framework.

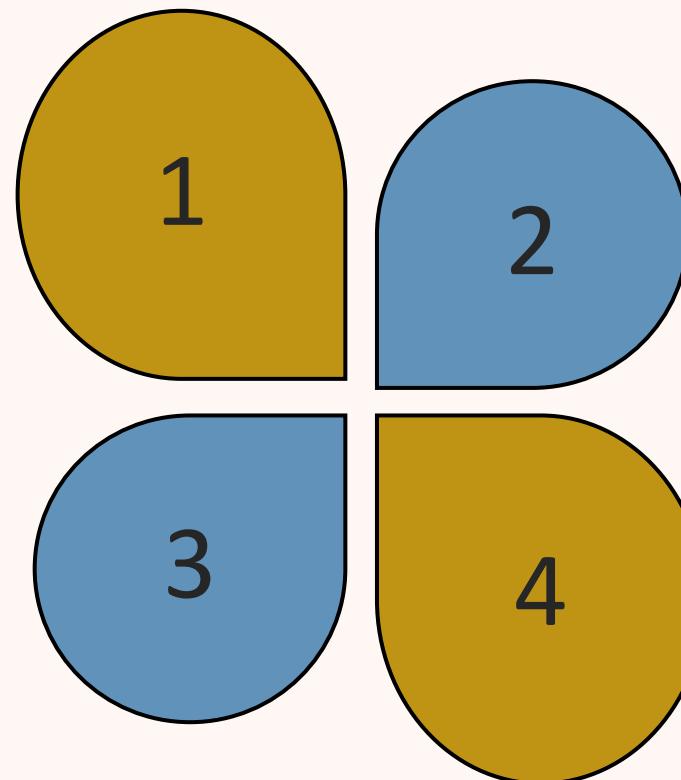
Primary Investment Objectives

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- **Liquidity:** The investment portfolio shall be structured with sufficient liquidity to timely meet expected cash outflow needs and associated obligations which might be reasonably anticipated. This objective shall be achieved by matching maturities and cash flow needs.
- **Return on Investments:** The investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

Investment Policy Importance

Defines whether your investment policy statement (IPS) is more restrictive than CA Code or matches the minimum standards set forth by code requirements

Demonstrates a commitment to the fiduciary care of public funds



Identifies investment objectives, risk tolerance and constraints on the investment portfolio

Facilitates decision making with emphasis on safety, liquidity, and return on investment

Your IPS is Important to...

- **Board/Council**
 - Gives them tools to oversee public funds responsibility, manage risk, plan, and protect the agencies and their reputation.
- **Constituents**
 - Ensures decisions are based on public interest, not personal or political gain.
- **Auditors**
 - Gives auditors a roadmap to verify funds are being invested legally, safely, and transparently—protecting the agency and the public trust.
- **Capital Markets** (issuing, buying/selling)
 - Creates confidence, stability, and efficiency in the capital markets.
- **Rating Agencies**
 - Makes your agency look safer and more reliable to rating agencies, which can earn a better credit rating, lower borrowing costs, and maintain a strong reputation in the financial world.

CMTA Best Practices

18 Areas for Policy Certification

 **Scope**

 **Prudence**

 **Objective**

 **Delegation of Authority**

 **Ethics and Conflicts of Interest**

 **Authorized Financial Dealers & Institutions**

 **Authorized & Suitable Investments**

 **Review of Investment Portfolio**

 **Investment Pools/Mutual Funds**

 **Collateralization**

 **Safekeeping and Custody**

 **Diversification**

 **Maximum Maturities**

 **Internal Control**

 **Performance Standards**

 **Reporting**

 **Investment Policy Adoption**

 **Glossary**

Latest on Measuring Performance

- **Benchmark:** Oxford definition: 1. a standard or point of reference against which things *may be* compared or assessed
- **Qualitative vs. Quantitative/Total Return Index Benchmarking** for Public Treasuries and Local Government Investment Pools

******Think twice*** about adding a total return index benchmark to your IPS (ICE BAML 1-3 Treasury Index, Bloomberg US Intermediate Aggregate Bond Index, etc.

- Logistics and Audit Considerations.....

Latest on Measuring Performance (cont. 2 of 3)

- **GFOA SAMPLE LANGUAGE:** 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.
- **Really?????**

Latest on Measuring Performance (cont. 3 of 3)

Qualitative Benchmarking:

*"The investment portfolio has been managed in accordance with the **Prudent Investor Standard**, ensuring compliance with all fiduciary obligations and investment policy constraints. The portfolio's performance has been evaluated based on suitability metrics, including safety, liquidity, income stability, and policy adherence. Returns have been achieved within the framework of prudent risk management, ensuring alignment with statutory requirements and long-term fund objectives. The portfolio's structure and decisions reflect a commitment to responsible stewardship, balancing risk and return in a manner consistent with fiduciary duty."*

Beyond a 5yr Final – Which Investments Apply

- **53601.** Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.
- Below are the sections that DO NOT specify a limitation on the term or remaining maturity at the time of investment:
 - (a) Bonds issued by the local agency
 - (b) United States Treasury notes
 - (c) Registered state warrants or treasury notes or bonds of this state...
 - (d) Registered treasury notes or bonds of any of the other 49 states...
 - (e) Bonds, notes, warrants, or other evidence of indebtedness of a local agency...
 - (f) Federal agency or United States government-sponsored enterprise obligations...
 - (i) Negotiable certificates of deposit (NCDs)
 - (n) Notes, bonds, or other obligations that are at all times secured by a valid priority security interest...listed by Sec. 53651
 - (o) A mortgage passthrough, collateralized mortgage obligation...(GOVT)
 - (r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.

Guaranteed Investment Contract (GIC) – NOT the same as an Annuity

- GIC – An investment instrument acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid
- Government Code [6590.2](#) authorized the use of guaranteed investment contracts (GICs) when purchased with proceeds of bonds, with required competitive bidding.
- In 2025, several of the CMTA IPS evaluators saw several Investment Policy statements authorizing annuities as an authorized investment.
- An annuity is a life insurance contract that is designed to provide income. It must be tied to a human life, whether the contract is owner or annuitant driven.

Legislative Changes and IPS Adoption

- Keep abreast of the regulatory and statutory change process—So you can add to your IPS ASAP.
- Keep an ongoing list of potential IPS changes that you would like to make when legislation becomes law.
- Consider IPS changes when needed, instead of just once per year.
- Get involved in the legislative process!!
- For California Agencies, make sure that you have a copy of CDIAC's updated *Local Agency Investment Guidelines*! It includes a summary of the most recent applicable legislative changes!

Legislative Changes What's New for 2026?

- SB 858 – Commercial Paper Tenor Extension from 270 – 397 Days
- SB 595 – Extend Sunsets from SB 998 (2021)
- SB 827 – New Training Requirements
- SB 852 – New Form 700 Reporting Requirements
- Current Proposals Under Consideration

History Behind the New Changes

- SEC Qualified Institutional Buyer and Accredited Investor Reform for Local Governments – August of 2020
- SB 998 Effective January 2021

Accredited Investor and QIB Changes Allowing Public Agency Participation

- Accredited Investor: Entities Satisfying a \$5 Million “Investments-Owned” Test – A new catch-all category for entities that own more than **\$5 million of investments** (as defined under the 1940 Act). This category is specifically intended to capture all new and existing entity types not already contemplated by the accredited investor definition (including, among others, Indian tribes, **governmental bodies**, and entities formed under foreign jurisdictions).
- Qualified Institutional Buyer: an investor must own and invest on a discretionary basis **\$100 million in securities** of unaffiliated issuers and be one of several types of entities listed in the rule. The amendments conform the types of eligible entities to those under Rule 144A. The SEC indicated in the Adopting Release that this last category will synchronize the definition with the new accredited investor category for entities having more than \$5 million of investments, as well as new types of institutional accredited investors.

SB 998 Moorlach (Chaptered Jan 1, 2021)

- Specifies that local agencies, other than counties or a city and county, which have \$100 million or more of investment assets under management may invest no more than 40% of their moneys in eligible commercial paper. **(Subject to sunset Jan 1, 2026)**
- Provides that a local agency, other than a county or a city and county, may invest no more than 10% of its total investment assets in commercial paper and the medium-term notes of any single issuer.
- Authorizes a local agency to invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. Authorizes a local agency to hold these instruments until their maturity dates. **(Subject to sunset Jan 1, 2026)**
- Allowed Federally recognized Indian Tribes and other joint powers authorities to participate in JPA Investment pools.

SB 858 Omnibus Package (Chaptered)

- Chapter 242, Statutes of 2025 (SB 858) amends Gov. Code 53601(h) to increase the maximum maturity for prime quality commercial paper from 270 days to up to 397 days.
- Note: This change allows purchases of 4(a)(2) & 144A private placement Commercial Paper beyond the 270-day limit imposed by the 3(a)3 exemption.

SB 595 Choi (Chaptered)

- Chapter 323, Statutes of 2025 (SB 595) amends Government Code (Gov. Code) section 53601(h) to address the investment of local agency surplus funds. The bill extends the authority for local agencies that have \$100,000,000 or more of investment assets under management, to invest no more than 40% of their money in eligible commercial paper until January 1, 2031. SB 595 also amends Gov. Code section 53601.6 to extend a local agency's authority to invest in securities issued by, or backed by, the United States government that could result in zero-interest accrual if held to maturity, to January 1, 2031.
- **SB 595 also makes the change, concurrent and conforming with the amendments to Gov. Code 53601(h) made by SB 858, to permanently increase the maximum allowable maturity for prime quality commercial paper from 270 days to up to 397 days, up to and after the January 1, 2031 sunset date established under SB 595.**
- Finally, SB 595 amends Gov. Code section 53895 to revise the requirements for local agency financial transactions reports to the State Controller by imposing penalties if the required reports are not filed within 10 months after the end of the fiscal year or by the State Controller's deadline, whichever is later.

SB 827 Gonzalez (Chaptered)

New Training Requirements:

- Chapter 661, Statutes of 2025 (SB 827) expands training requirements for local agency officials in California by updating ethics training mandates and introducing a new fiscal and financial training component. Ethics training must now be completed within **six months** of starting service (previously one year). Public agencies must maintain and publicly disclose training records for at least five years, with instructions on how to request training records posted on their website beginning July 1, 2026.
- In addition, SB 827 establishes a biennial two-hour fiscal and financial training requirement for officials of cities, counties and special districts including members of the legislative body, elected officers, appointed officials with financial responsibilities and **other agency executives**. The training specified in the bill covers a wide variety of fiscal and financial topics including capital financing and debt management, pensions and other postemployment benefits, cash management and investments, the prudent investor standard, the ethics of safeguarding public resources, municipal budgets and budget processes, and financial reporting and auditing. Agencies may partner with recognized experts to deliver the training in person or online and must offer it annually.

SB 827 Gonzalez (Chaptered)

- 53234.
- For purposes of this article, the following definitions apply:

(c) “Local agency official” means any of the following:

(1) A member of a local agency legislative body or an elected officer of a local agency who receives any type of compensation, salary, or stipend or reimbursement for actual and necessary expenses incurred in the performance of official duties.

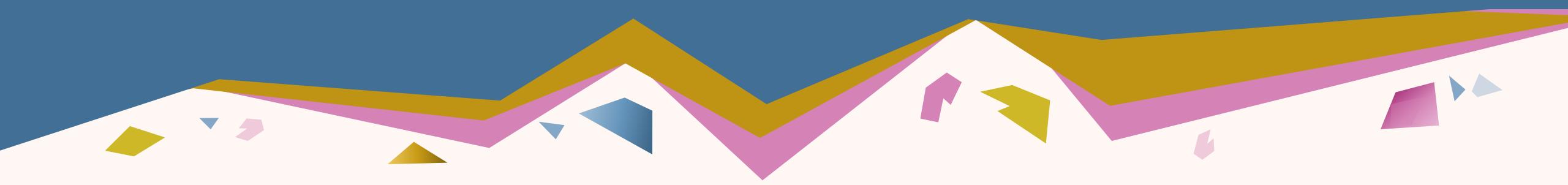
(2) A department head or other similar administrative officer of a local agency.

(A) For a local educational agency, a “department head or other similar administrative officer” means the superintendent of a school district, the county superintendent of schools, or the chief administrator of a charter school.

(B) For purposes of subparagraph (A), a “local educational agency” means a school district, county office of education, or charter school.

(3) An employee designated by a local agency governing body to receive the training specified under this article.

SB 852 – Committee on Elections and Constitutional Amendments



New Reporting Requirements:

- Adds public officials who manage public investments to those who must file Statements of Economic Interest (Form 700) **electronically** through the Fair Political Practice Commission's **E-filing system**.
- **87500.**
- (a)(1) A statement of economic interests filed by a public official, for whom the Commission is the filing officer, shall be filed with the Commission using the Commission's electronic filing system.
 - (o) A public official who manages public investments.

Legislative Proposals in the Works for 2027

- FHLB LOC Expanded from San Francisco only to all FHLB Districts
- Adding IDB Invest as a qualified issuer under 53601(q)
- Federally Licensed or Chartered Foreign Bank CP

IPS Creation, Certification and Considerations

- Authorized investments per code
- CMTA certification process
- Mistakes & misunderstandings
- IPS structure & other considerations

List of CA Authorized Investments

1. Local Agency Bonds
2. U.S. Treasury Obligations
3. State Obligations-CA & others
4. CA Local Agency Obligations
5. U.S. Agency Obligations
6. Bankers' Acceptances
7. Commercial Paper-Non-Pooled <100million
8. Commercial Paper-Non-Pooled =/>100million
9. Commercial Paper-Pooled
10. Negotiable Certificates of Deposit
11. Non-negotiable Certificates of Deposit
12. Placement Service Deposits
13. Placement Service Certificates of Deposit
14. Repurchase Agreements
15. Reverse Repo Agreements & Securities Lending
16. Medium Term Notes
17. Mutual Funds & Money Market Mutual Funds
18. Collateralized Bank Deposits
19. Mortgage Pass-Through & Asset-Backed Securities
20. County Pooled Investment Funds
21. Joint Powers Authority Pools
22. Local Agency Investment Fund (LAIF)
23. Voluntary Investment Program
24. Supranational Obligations
25. Options/Futures

CMTA Certification Process

- Independent certification reinforces to your board/council, auditors, constituents, capital markets and rating agencies that you've taken steps towards a sound, quality investment policy.
- **CMTA's Investment Policy Certification** will provide you with a run-down of the process. CMTA's Investment Policy Certification Program and Application Process was developed by CMTA with support from CDIAC.
- **The CMTA Certification Program and Application** takes you step by step through the application process.
- **The Sample Investment Policy** is your “open book” to best practices, presentation, and minimum points the committee is looking for to certify your investment policy.
- Reviewed by Committee members that have extensive public finance experience
- Certification fee is nominal : \$175 for a participating CMTA member or \$270 for a non-member (which includes a new membership to CMTA). The turn-around time is 6 weeks or sooner; must meet criteria with a score of 85 or above. You can re-submit for no additional charge if done within 90 days of notification.

Common Mistakes for CMTA Investment Policy Statement (IPS) Certification

- Cut and paste, or combine code sections
- Misunderstanding of reporting requirements ([53607](#) & [53646](#))
- Unclear language
- Missing sections
- Not following the [CMTA Sample Investment Policy](#) for certification

Treasury Oversight Committee

- GC Sections [27131](#) and 27132 through 27132.4 consider the formation, composition, and role of a county treasury oversight committee. These code sections provide that the function of the treasury oversight committee is to monitor and review the county investment policy by conducting or causing an annual audit and discussing its findings at a public meeting. The rationale behind the creation of an oversight committee is to give local agencies and private sector citizens a say in the policies governing the investment pool. (See [LAIG](#) Chapter IV)

IPS and Rating Agencies

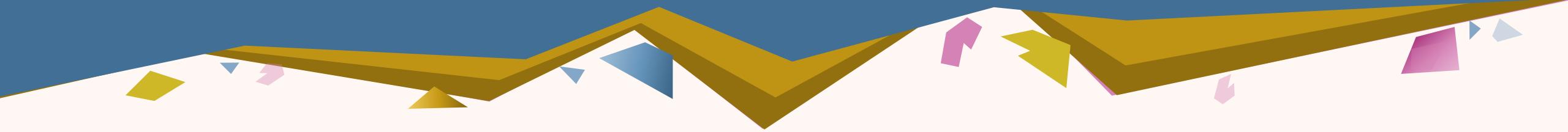
- If your treasury pool is rated, it is advisable to ask your rating agency to review any proposed IPS changes. Good communication is very important.
- Rating Agencies will not officially “approve” your IPS.
- Rating Agencies will “review” your IPS and opine as to whether your limits are consistent with specific ratings criteria.
- Rating Agencies do consider your IPS when rating your treasury pool/fund.

SAN BERNARDINO COUNTY INVESTMENT POLICY OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR (SCHEDULE I)					
AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS		MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest <u>53601(b)</u>	100%	None		5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises <u>53601(f)</u>	100%	Senior debt only (Max 10% of portfolio in new issue agency par callable securities)		5 years and 6 months for senior unsecured debt 7 years and 3 months (for agency mortgage-backed securities only)	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank <u>53601(g)</u>	30%	US Dollar denominated Senior Unsecured debt only		5 years	AA by at least one rating agency*
Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within San Bernardino County <u>53601(e)</u>	10%	With approval of Treasurer		5 years	AAA by at least 2 of the 3 rating agencies*
Commercial paper of U.S. Corps with total assets in excess of \$500 MM <u>53635(a)(1)</u>	40% total for all Commercial Paper	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit		270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*

Big Mistakes to Avoid in PRACTICE

- Having language in your IPS that forces you to take a realized loss
- Being too restrictive/inflexible to respond to market conditions and changes
- Failing to review every code reference in your IPS and update with new legislative changes on an annual basis (sunset provisions, code nomenclature changes, new code sections, etc.)

Language on Losses



AUTHORIZED INVESTMENTS:

- Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I, which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply.
- Whenever a maximum allowable percentage of the portfolio is stated for any type of security as detailed above, the maximum allowable limit is determined by the portfolio size at the market close of the regular business day prior to the security purchase date. **Maximum limits are applicable at the time of security purchase only unless otherwise noted or defined in Schedule I.**

Language on Losses

MITIGATING MARKET & CREDIT RISKS:

- Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the credit ratings issued by Standard & Poor's, Moody's and/or Fitch rating services on the credit worthiness of each issuer of securities, by limiting the duration of investments to the time frames noted in Schedule I, and by maintaining the diversification and liquidity standards expressed within this policy.

In the event of a downgrade of a security held in the portfolio, the Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book loss.

- **In the event of a potential loss upon sale, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.**

Language on Losses

TRADING & EARLY SALE OF SECURITIES:

- Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, securities may be sold prior to maturity, either at a profit or loss, when market conditions or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal.
- In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the County's books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale. However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

Language on Large, Unexpected or Unmanageable Withdrawals

WITHDRAWAL OF FUNDS:

- Any depositor or public official having funds on deposit, either voluntarily or involuntarily, with this pool, that seeks to withdraw these funds for the purpose of investing or depositing them outside the Treasury Pool, shall first submit a request for withdrawal to the Treasurer for approval prior to withdrawing funds. The request should be submitted and processed as follows:
 - In writing, from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit is/are to be made, and the reason for the request.
 - The request must be received by the County Treasurer no less than thirty (30) days prior to the requested date of withdrawal.
 - Prior to approving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the County Treasury pool, in accordance with California Government Code Section 27136(b).

Other Considerations for your IPS

- Special Attachments for convenience
- Reverse Repo and Securities Lending
- Collateralized Certificates of Deposit (CDs)
- Broker/Dealer Selection Criteria
- Voluntary Deposits/Withdrawals

Special Attachment to your IPS (Example)

POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

1. The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio.
2. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.
3. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.
4. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.
5. Only U.S. Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.
6. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities that are intended to be held to maturity, have been fully paid for, and have been held in the portfolio for a minimum of 30 days.
7. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.
8. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.
9. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

Resources

- California Legislative Information Website:
<https://leginfo.legislature.ca.gov/faces/home.xhtml>
- *Local Agency Investment Guidelines*: <https://www.treasurer.ca.gov/cdiac/>
- CDIAC *Debt Line*: <https://www.treasurer.ca.gov/cdiac/>
- Jake Stroud, Asst. Treasurer-Tax Collector, County of Monterey & CMTA Legislative Committee Chair: stroudja@countyofmonterey.gov, 831-755-5828

Disclosures

- **INTENDED FOR INSTITUTIONAL INVESTORS ONLY.** The information provided herein is for informational purposes only and should not be construed as a recommendation of any security, strategy or investment product, nor as an offer or solicitation for the purchase or sale of any financial instrument. Any information or data used in presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. This presentation contains the current opinions of the author, which are subject to change without notice. Any statements concerning financial market trends or future forecasts are based on current market conditions, which will fluctuate. Past performance is not Indicative of future results. Member FINRA/SIPC.
- Deborah M Higgins/President/Higgins Capital
- debbie@higginscapital.com
- John Johnson/Retired-Asst. Auditor-Controller/TTC/San Bernardino County
- treaj89@outlook.com

QUESTIONS?



DEBORAH HIGGINS

President
Higgins Capital Management



JOHN JOHNSON

*Retired Assistant Auditor-
Controller/Treasurer/Tax Collector
County of San Bernardino*



LUNCHEON

SESSION FIVE

From Policy to Construction:
Portfolio Structure and
Diversification

RICK PHILLIPS

Chief Investment Strategist
Meeder Public Funds





CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

FUNDAMENTALS OF PUBLIC FUNDS INVESTING
JANUARY 28, 2026 | 1:30 PM TO 2:30 PM

From Policy to Construction: Portfolio Structure and Diversification

RICK PHILLIPS | CHIEF INVESTMENT STRATEGIST
MEEDER PUBLIC FUNDS



FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END
OF THE PRESENTATION.

Speaker Information



RICK PHILLIPS
Chief Investment Strategist

2023–Present

Meeder Public Funds
Chief Investment Strategist

2005–2023

FHN Main Street Advisors
President

1998–2005

Clark County Nevada
Chief Investment Officer

1989–1998

City of Las Vegas
Investment Officer

Government Investment Officers
Association (GIOA)
Founder

Session Objectives



Identify the different elements of consideration in building a portfolio

Recognize key challenges in linking policy to portfolio development and operation

Recognize the differences between book yield, book return, and total return and the implications of using one versus the others

Structuring an Investment Program to Ensure the Three Objectives are Accomplished

SLI:

- A. Safety of Principal
- B. Sufficient Liquidity
- C. Market Rate of Investment Income



The “Other Objectives”



Budget Stability of
Investment Income

Sleep Adjusted
Returns

Creating an investment plan

Investment Plan = Practical and Day-To-Day

Are You Allowed to Use Treasury Futures Contracts and Treasury Futures Options?

53601.1. The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

- A. Yes
- B. No



R. Should local agencies invest in financial **futures** and option contracts? If so, in what manner should they be utilized? 32

Structuring an Investment Plan to Ensure the Three Objectives are Accomplished

8. Primary Investment Objectives

- Safety of Principal: Safety of principal is the foremost objective of the [entity's] investment program. Investments by the [designated official] shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification of security types, sectors, issuers, and maturities is necessary in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- Liquidity: The investment portfolio shall be structured to timely meet expected cash outflow needs and associated obligations which might be reasonably anticipated. This objective shall be achieved by matching investment maturities with forecasted cash outflows and maintaining an additional liquidity buffer for unexpected liabilities.
- Investment Income: The investment portfolio shall be designed to earn a market rate of investment income in relation to prevailing budgetary and economic cycles, while taking into account investment risk constraints and liquidity needs of the portfolio.

Wisdom of the Past: Context is Very Helpful

The more you know
about the past, the
better prepared
you are for
the future.

– THEODORE ROOSEVELT

SOURCE: SHUTTERSTOCK



“F.I.G.E.Y.” Model of Interest Rates

Fed Policy



Inflation



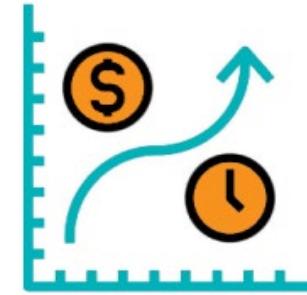
Growth (GDP)



Employment

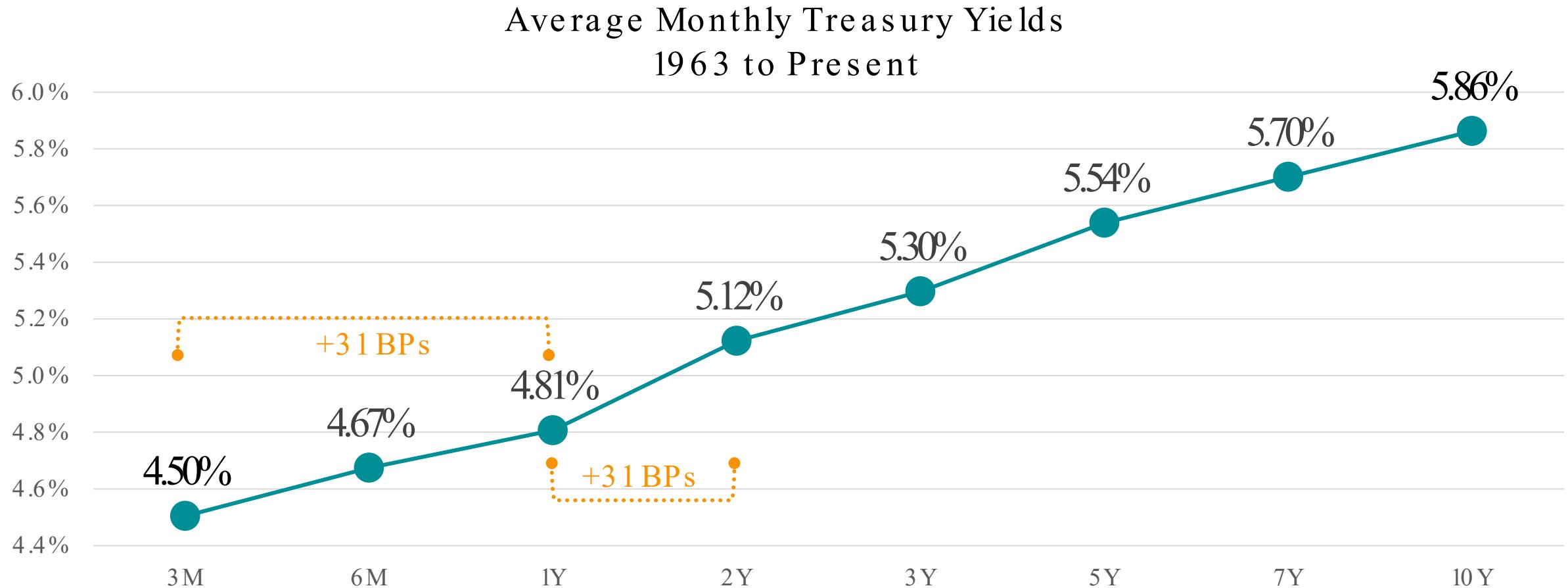


Yields



- Shorter-term yields are highly correlated with the Fed Funds rate set by the Fed's Federal Open Market Committee (FOMC).
- Intermediate-term and longer-term yields are more correlated to the expected future rates of inflation, economic growth, and the unemployment rate.

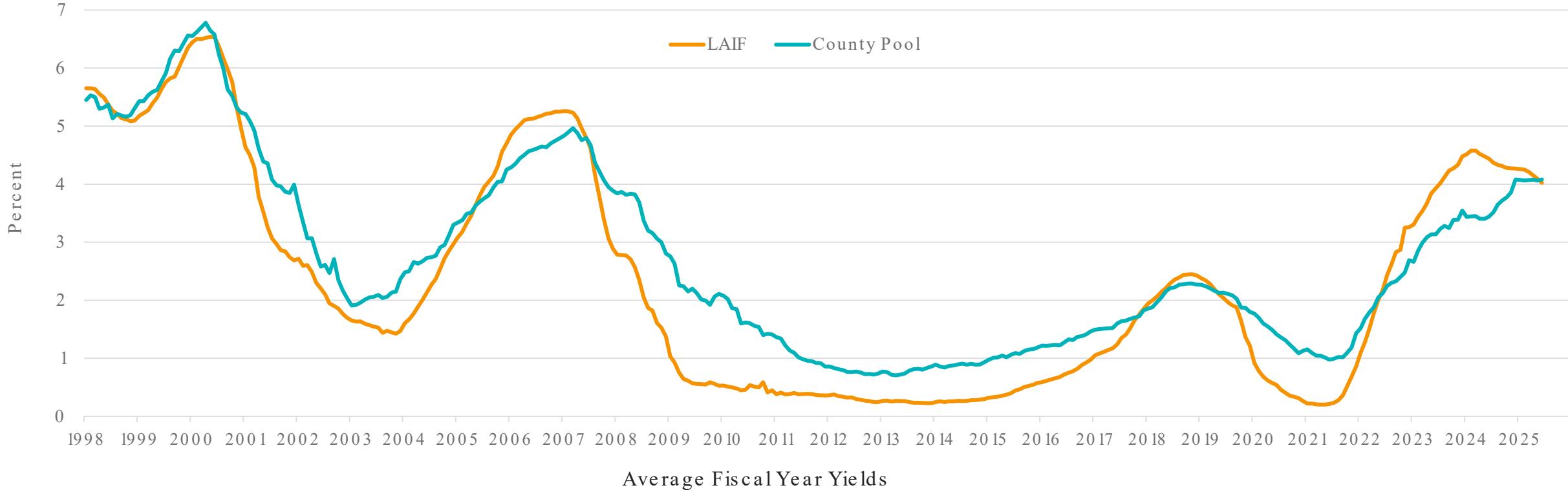
Longer Duration has Generated More Investment Income Over the Long Run



SOURCE: BLOOMBERG AS OF JAN-26. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

Longer Duration vs. Shorter Duration: Real Life

Yield: County Pool vs. California LAIF



Average Fiscal Year Yields

Fiscal Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	AVG
County	5.3	5.92	6.15	4.36	2.74	2.06	2.79	3.74	4.57	4.58	3.45	2.21	1.66	1.06	0.77	0.78	0.89	1.08	1.3	1.61	2.14	2.07	1.4	1.09	2.12	3.16	3.6	4.07	2.74
CALAIF	5.36	5.68	6.13	3.43	2.18	1.53	2.23	3.85	5.12	4.38	2.19	0.66	0.49	0.83	0.31	0.25	0.27	0.43	0.75	1.36	2.26	1.94	0.52	0.35	2.26	3.93	4.41	4.17	2.39
Variance	-0.05	0.24	0.02	0.93	0.56	0.53	-0.56	-0.11	-0.55	-0.15	1.27	1.55	1.17	0.68	0.47	0.53	0.62	0.64	0.55	0.25	-0.12	0.13	0.88	0.74	-0.14	-0.77	-0.82	-0.09	0.35

SOURCE: MEEDER, STATE OF CALIFORNIA. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

Interest Rate Risk (WAM/Duration) Should Match Cash Flow Metrics

- Bond Proceed Funds and LGIPs Should Have Shorter Average Maturities
- Operating Funds Should Have Longer Average Maturities



You, I.. Nor Anyone Else Can Time the Market Accurately Over The Long Run

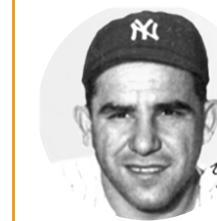


“The only function of economic (and interest rate) forecasting is to make astrology look respectable.”

JOHN KENNETH GALBRAITH
Economist

“Our ability to forecast is limited.”

ALAN GREENSPAN
Former Fed Chair
November 2019



“The Federal Reserve is currently not forecasting a recession.”

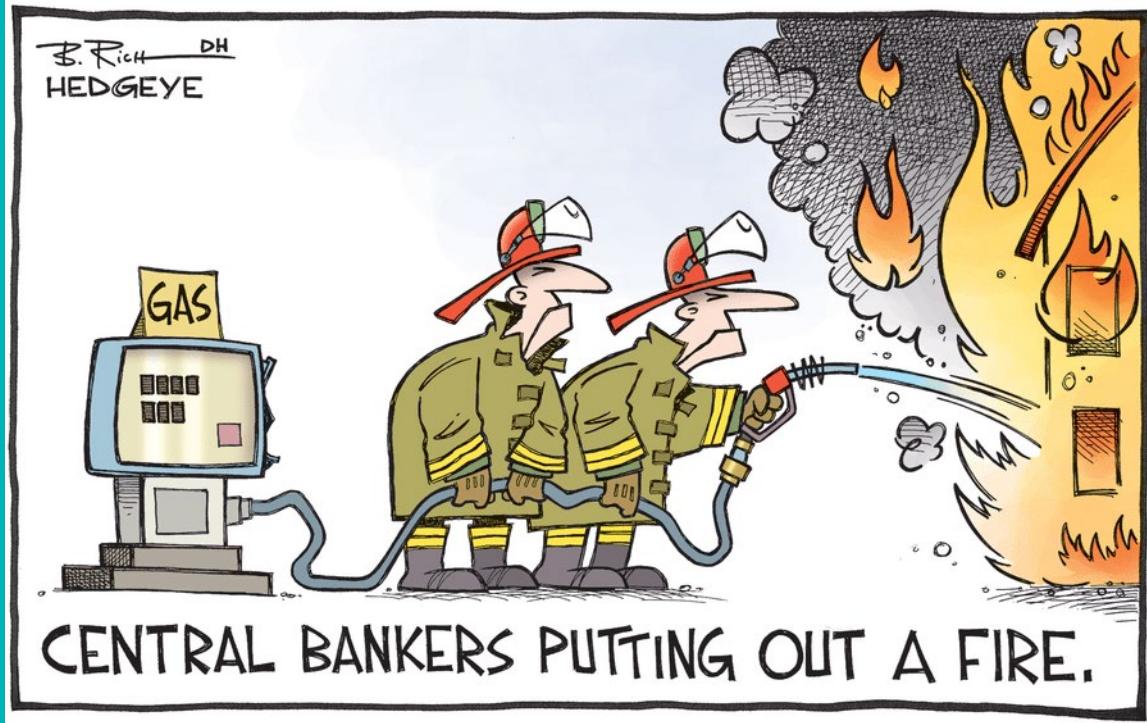
BEN BERNANKE
Former Fed Chair
January 10, 2008

“It’s tough to make predictions, especially about the future.”

YOGI BERRA
New York Yankees

You, I.. Nor Anyone Else Can Time the Market Accurately Over The Long Run

(cont. 2 of 2)



SOURCE: HEDGEYE, BLOOMBERG

Both the Fed and the markets expected 3 interest rate hikes (25 BPs) in 2022...
the Fed hiked 17 times!
(The 25 Basis Point Kind)



The point of studying economics is so as not to be fooled by economists.

— JOAN ROBINSON



SOURCE: JOAN ROBINSON, AZ QUOTES

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

GASB 31: Balance Sheet vs. Income Statement



MEEDER



GASB 31 essentially says you “sell” your portfolio every fiscal year end, then “rebuy” it on the first day of the next fiscal year, and adjust investment income by that amount.

SOURCE: BLOOMBERG, END OF DAY PRICING. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

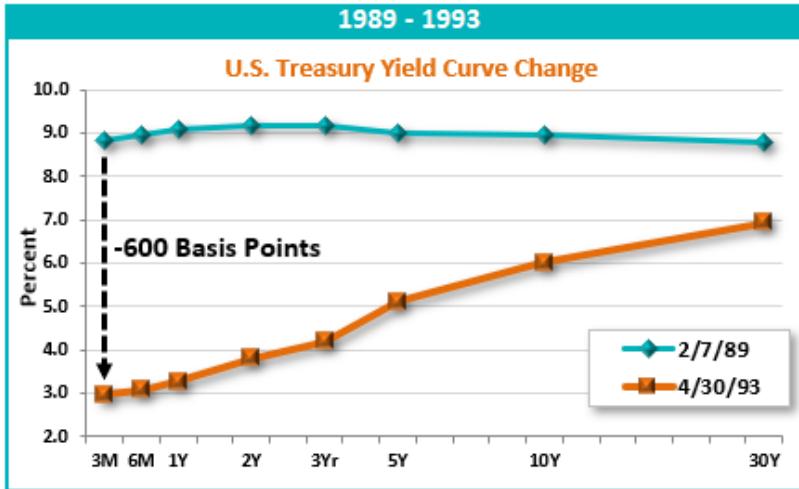


SOURCE: GOOGLE

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

The “Yield Curve Trap”

How Interest Rates React to Fed Rate Cuts



SOURCE: BLOOMBERG. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

How Many Fed Cuts are You Expecting in 2026?

- A. 0
- B. 1-2
- C. 3-4
- D. They should hike!

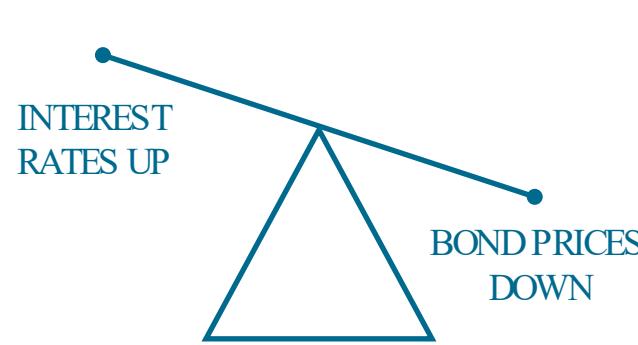


Risks

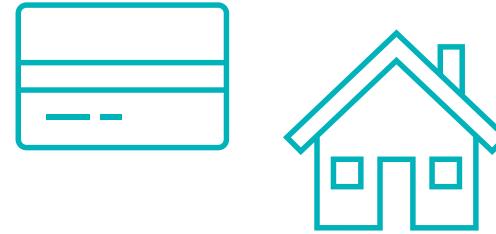
- Interest Rate Risk
- Credit Risk

Credit can Enhance Income, but Duration is the Bigger Determinant of Income

Interest Rate Risk

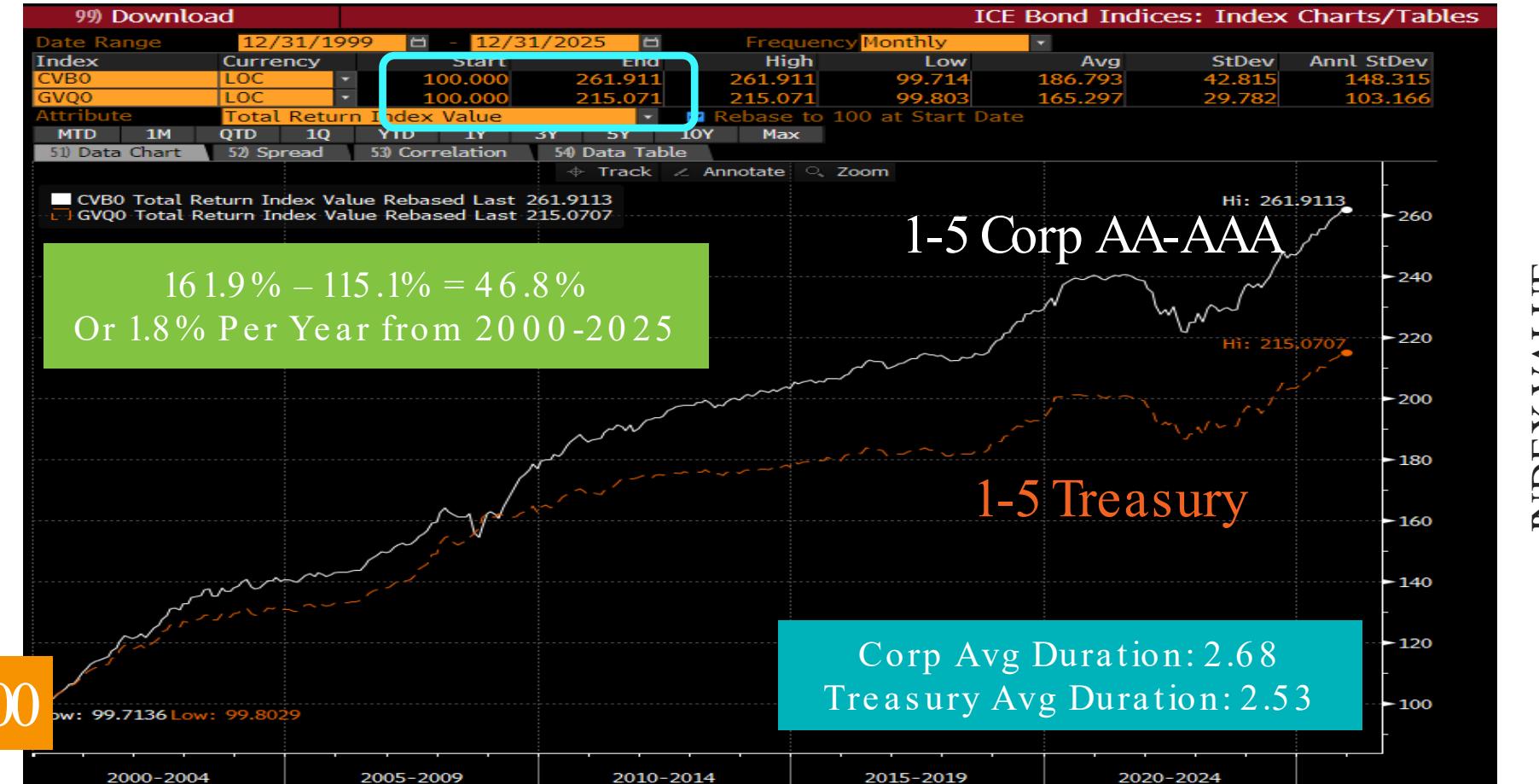


Credit Risk



VS

Corporate vs. Treasury: 1-5 Yr AA-AAA Corporates vs. 1-5 Yr Treasuries (Total Return)



INDEX VALUE

SOURCE: BLOOMBERG. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

1-5 Yr AA-AAA Rated Corporate Bond Spreads to Treasuries



BASIS POINT SPREAD

SOURCE: BLOOMBERG. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

Are You Allowed to Purchase Corporate Notes?

If Yes, are You Allowed to Purchase A3/A-?

What is the Approximate Percentage of Corporate Notes in Your Portfolio?

- A. 0 - 5%
- B. 6% - 10%
- C. Greater Than 10%

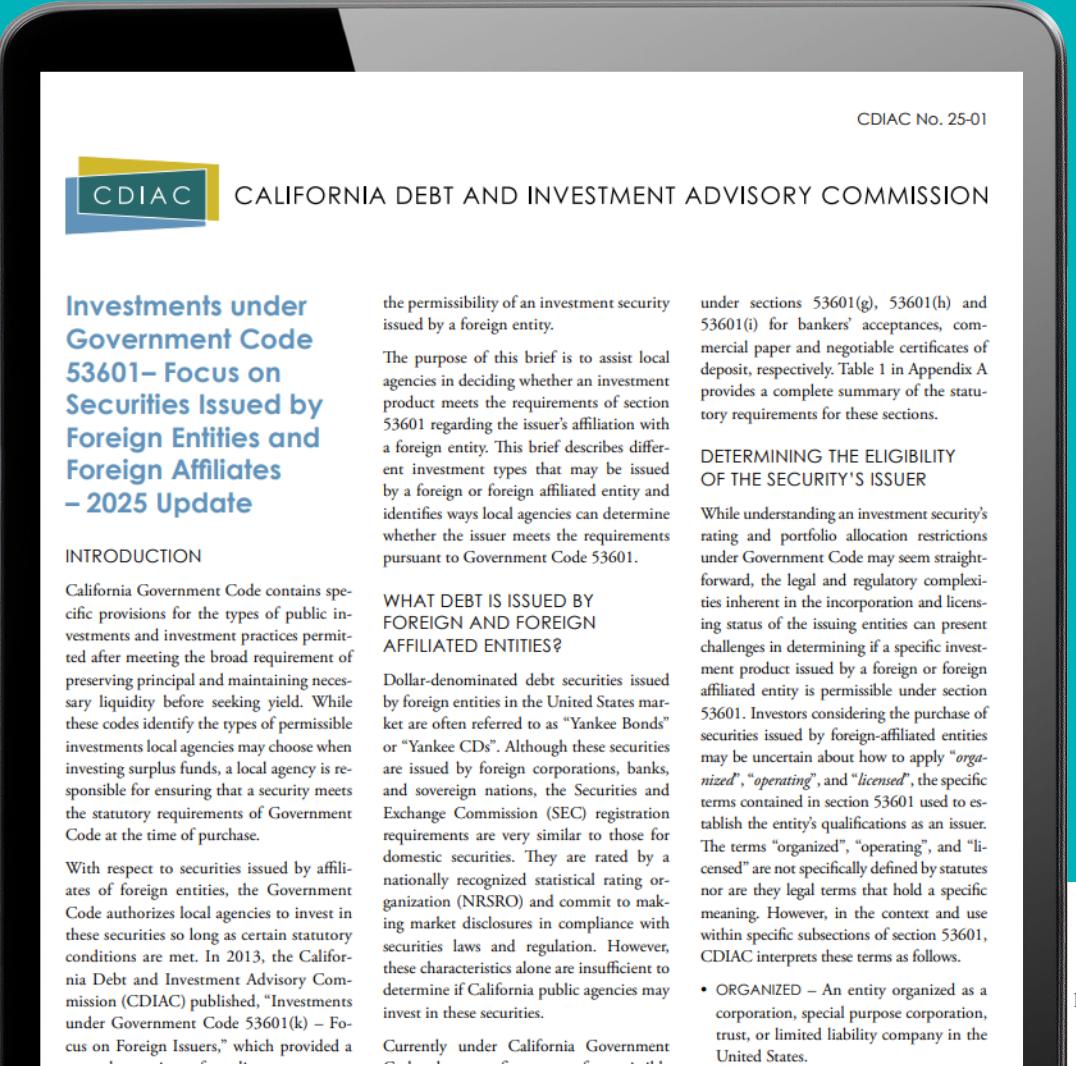


Securities Issued by Foreign Entities and Affiliates



SOURCE: [HTTPS://WWW.TREASURER.CA.GOV/CDIAC/PUBLICATIONS/ISSUE-BRIEF/2025/25-01.PDF](https://www.treasurer.ca.gov/cdiac/publications/issue-brief/2025/25-01.pdf)

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.



CDIAC No. 25-01

CDIAC CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Investments under Government Code 53601—Focus on Securities Issued by Foreign Entities and Foreign Affiliates – 2025 Update

INTRODUCTION

California Government Code contains specific provisions for the types of public investments and investment practices permitted after meeting the broad requirement of preserving principal and maintaining necessary liquidity before seeking yield. While these codes identify the types of permissible investments local agencies may choose when investing surplus funds, a local agency is responsible for ensuring that a security meets the statutory requirements of Government Code at the time of purchase.

With respect to securities issued by affiliates of foreign entities, the Government Code authorizes local agencies to invest in these securities so long as certain statutory conditions are met. In 2013, the California Debt and Investment Advisory Commission (CDIAC) published, "Investments under Government Code 53601(k) – Focus on Foreign Issuers," which provided a detailed analysis of the requirements under sections 53601(g), 53601(h) and 53601(i) for bankers' acceptances, commercial paper and negotiable certificates of deposit, respectively. Table 1 in Appendix A provides a complete summary of the statutory requirements for these sections.

DETERMINING THE ELIGIBILITY OF THE SECURITY'S ISSUER

While understanding an investment security's rating and portfolio allocation restrictions under Government Code may seem straightforward, the legal and regulatory complexities inherent in the incorporation and licensing status of the issuing entities can present challenges in determining if a specific investment product issued by a foreign or foreign affiliated entity is permissible under section 53601. Investors considering the purchase of securities issued by foreign-affiliated entities may be uncertain about how to apply "organized", "operating", and "licensed", the specific terms contained in section 53601 used to establish the entity's qualifications as an issuer. The terms "organized", "operating", and "licensed" are not specifically defined by statutes nor are they legal terms that hold a specific meaning. However, in the context and use within specific subsections of section 53601, CDIAC interprets these terms as follows.

- **ORGANIZED** – An entity organized as a corporation, special purpose corporation, trust, or limited liability company in the United States.

Currently under California Government Code, an entity is considered organized if it is:

Risks

- Interest Rate Risk
- Having too much negative convexity
(aka: callables)

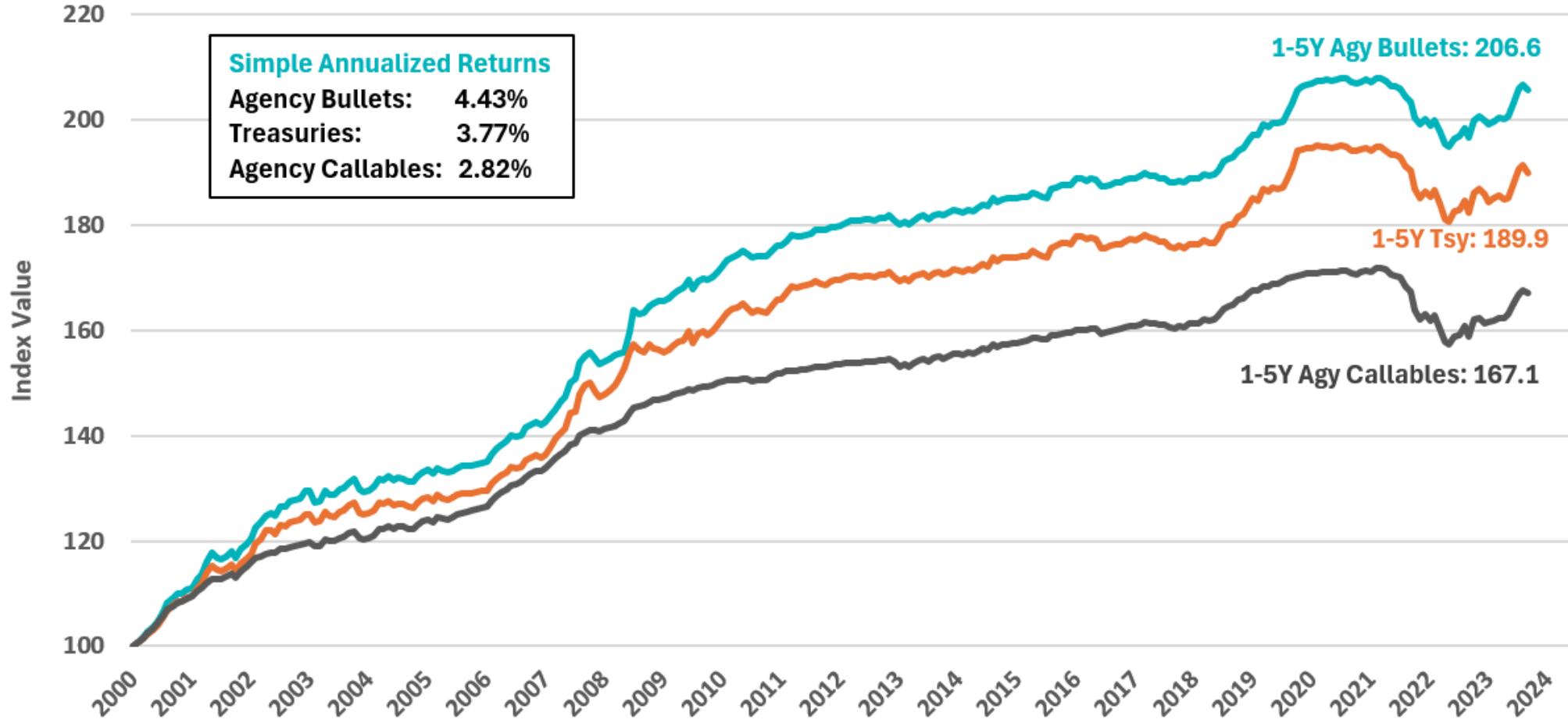
Which Basket of ICE BofA Index Securities has Produced the Highest Total Return since 2000?

- A. 1-5 Year Federal Agency Bullets
- B. 1-5 Year Federal Agency Callables



Index Return Values

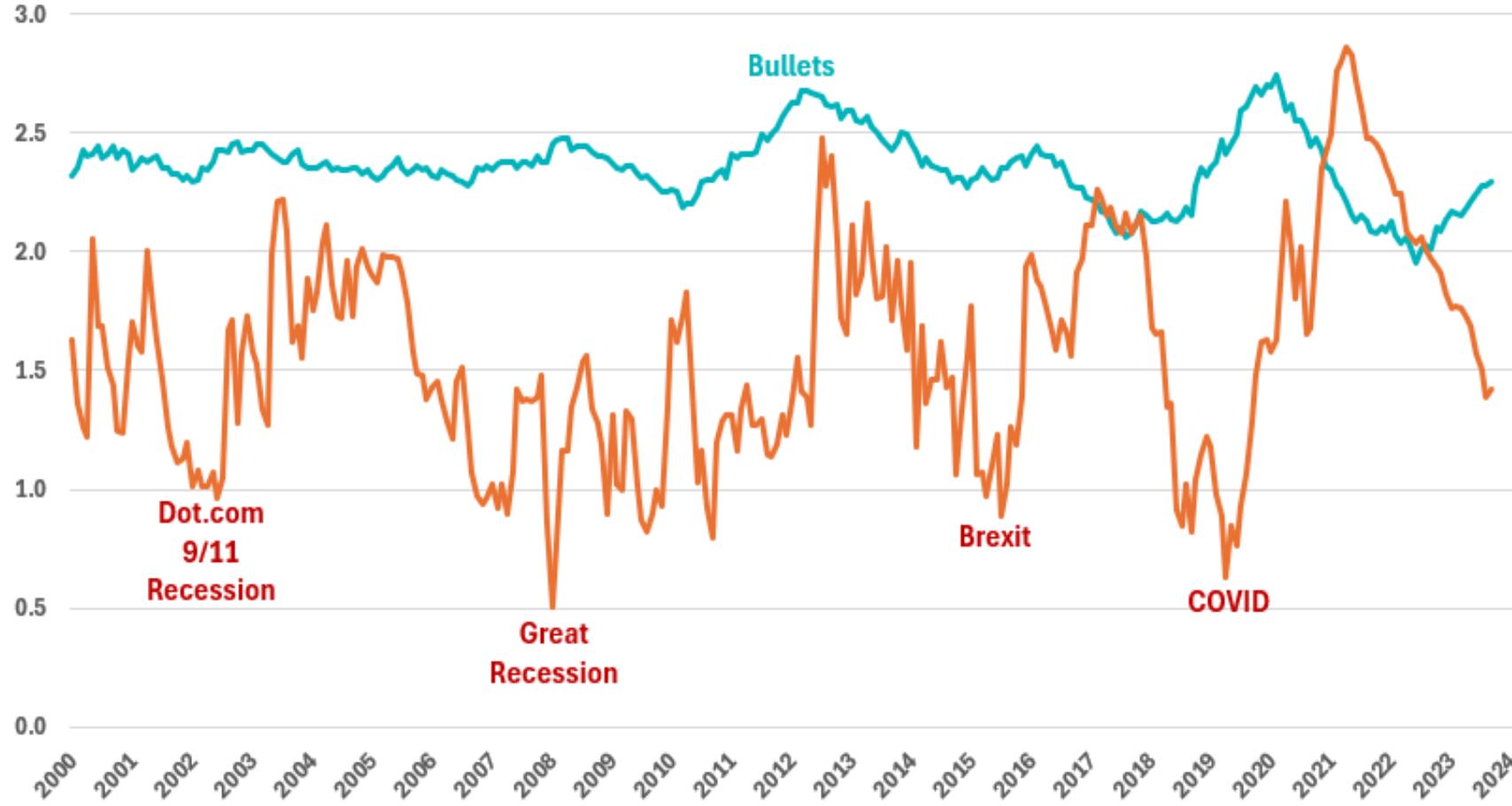
June 2000 to Present



SOURCE: BLOOMBERG AS OF 12/31/24. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

Effective Duration: 1-5 YR AGY Bullets vs. Callables



AVERAGE EFFECTIVE DURATIONS

- Bullets 2.35
- Callables 1.57

SOURCE: BLOOMBERG AS OF 12/31/24. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

Callable Federal Agency Bonds Typically Produce the Best Intermediate-term Investment Income/Returns in Which Rate Environment?

- A. Rates up
- B. Rates flat
- C. Rates down



Callable Bonds are Like Baskin-Robbins, They Come in Many ‘Flavors’

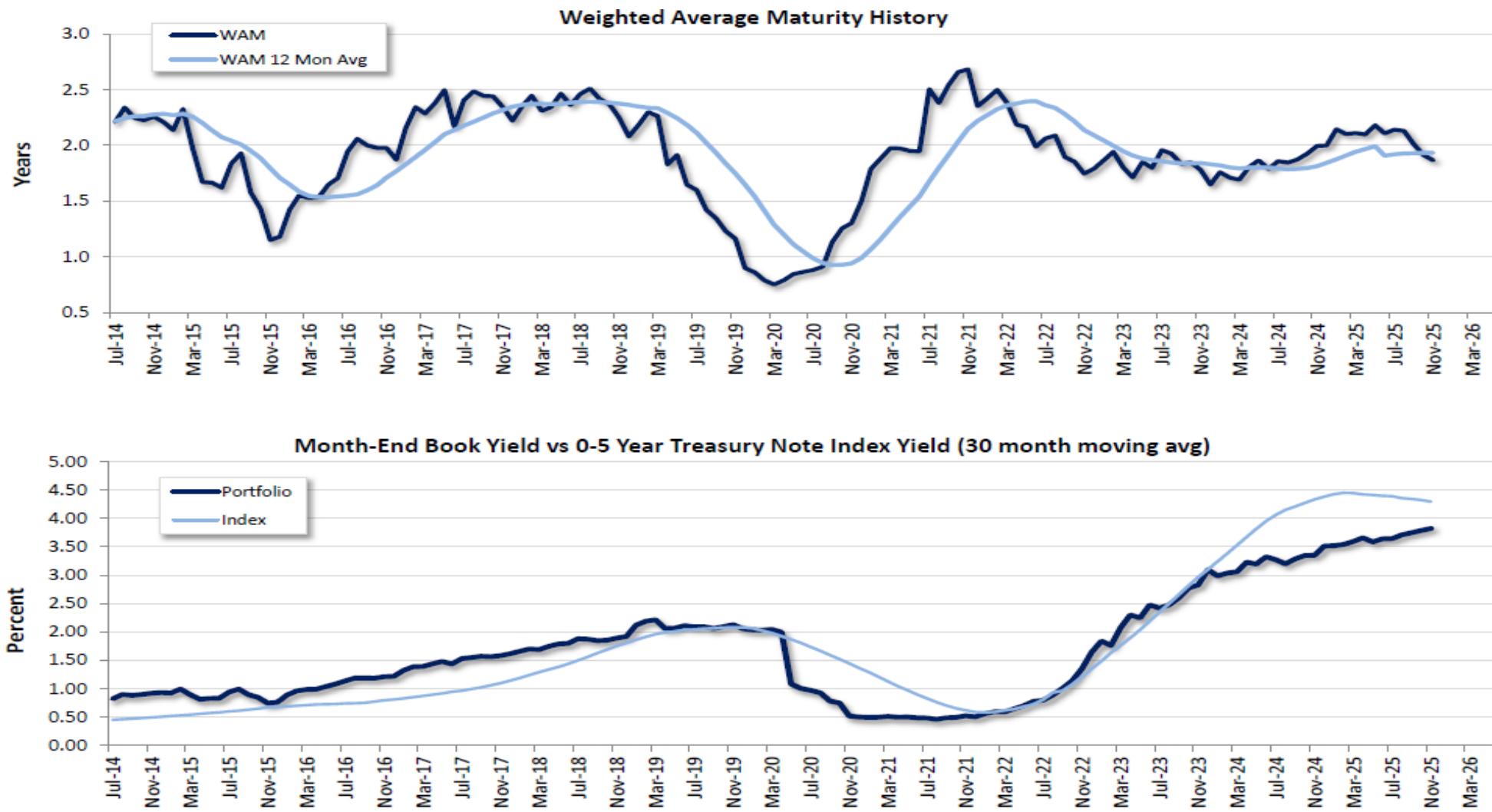
95 Actions ▾ 96 Alerts ▾ 97 Summary 98 Set Homepage 99 Export ▾							 New Issue Monitor
Selection *U.S. Agencies (NIM 2)		 Show Filters		 Clear Filters		Issues & News ▾	
<input checked="" type="radio"/> Real Time	<input type="radio"/> Issue History	Date Range	09/01/24	-	10/01/24	 Prelim Issues PREL	
Date ↓	Issuer/Headline	Coupon	Maturity	Spread Curr	Outst Book Mgr	Note	
	All	All	All	All	All	5-nc	
103) 9:42	FED HOME LN BANK	5.000	10/01/29	USD	80	JOINT LEADS	5-NC1MO BERM
106) 8:35	FED HOME LN BANK	3.850	10/01/29	USD	15	INSPRX,RWB	5-NC2 1X

SOURCE: BLOOMBERG. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

How Callables May Impact Portfolio Yields



M E E D E R



SOURCE: MEEDER. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

Interest Rate Risk..A.K.A. Duration



Effective Duration (sometimes called option-adjusted duration or OAS) further refines the modified duration calculation and is particularly useful when a portfolio contains callable securities. Effective duration requires the use of a complex model for pricing bonds that adjusts the price of the bond to reflect changes in the value of the bond's "embedded options" (e.g., call options or a sinking fund schedule) based on the probability that the option will be exercised.

Effective duration incorporates a bond's yield, coupon, final maturity and call features into one number that indicates how price-sensitive a bond or portfolio is to changes in interest rates.

SOURCE: CDIAC, [HTTPS://WWW.TREASURER.CA.GOV/CDIAC/PUBLICATIONS/ISSUE-BRIEF/2020/20-10.PDF](https://www.treasurer.ca.gov/cdiac/publications/issue-brief/2020/20-10.pdf)

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

A screenshot of a mobile device displaying a PDF document from the California Debt and Investment Advisory Commission (CDIAC). The document is titled "Issue Brief: Benefits and Limitations of Option-Adjusted Spread Analysis".

CDIAC No. 20-10

CDIAC CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Issue Brief: Benefits and Limitations of Option-Adjusted Spread Analysis

INTRODUCTION

Public fund managers want to ensure that their investment practices are consistent with their investment policy, and accomplish the main objectives of optimizing safety, liquidity, and return on agency assets. These goals charge public agencies with thoughtfully choosing investments that mitigate risk, ensure sufficient liquidity to meet ongoing obligations, and also generate income for the portfolio over budgetary and economic cycles. These different objectives often come into contention with one another, as assets considered the safest usually produce the smallest returns and assets with higher returns also tend to have more risk.

WHAT IS OAS?

OAS is a measure of yield spread that accounts for embedded call options in the valuation of bonds. The OAS for a bond is computed using price and projections of interest rate volatility to account for the possibility of early redemption. The OAS value is interpreted as the constant spread that can be earned on the asset compared to the risk-free option. Most commonly, the OAS is expressed as a spread over the Treasury curve.²

The main benefit and purpose of OAS is that it allows for comparability between bonds with different redemption structures. For the majority of public agencies, the most common application of OAS relates to agency investments in callable bonds. For example, an agency might want to compare the yield for a callable bond with the yield for a noncallable, or bullet, bond. Without OAS, an investor can only compare the nominal rate of return for each bond without being able to consider a potential lower return in cases where the callable bond is redeemed before maturity. When used correctly, OAS can help investors make more informed decisions about which assets to include in their portfolios that balance their different investment objectives of safety, liquidity, and return.

EFFECTIVE DURATION

Additional benefits of OAS include applications to calculating duration for a bond in a way that accounts for an embedded option. Duration is a measure of estimating the price (market value) change in a bond given a change in interest rates. Effective duration is a byproduct of the option models that produce OAS and it accounts for ways that changes in interest rates have the potential to change a bond's cash flows. Similar to how OAS is an improved measure of yield spread, effective duration is an improvement over modified duration, as it is a more reliable indicator of a callable bond's price sensitivity to changes in interest rates.

INVESTMENT RISKS OF CALLABLE BONDS

Callable bonds have an embedded option for early redemption, which is associated with additional investment risks. For example, one of the main risks of investing in callable bonds is the possibility that the bond could be redeemed, or "called," earlier than its

Are You Allowed to Sell at a Loss?

- A. Yes
- B. No



Swap Analysis (Bloomberg Function “SWB”)



FHLB 1.11% 6/2/26 issued
in Jun 2021 (5Yr)



Sell at a 3.62% yield and
realize an ~\$242K loss



Buy CP at 3.75% maturing
6/2/26 at a 3.75% yield



Income Gain: ~9.4K

SOURCE: BLOOMBERG, MEEDER

SWAP ANALYSIS	FHLB 1.11 6/2/26
Sale (Swap) Date	1/12/26
Maturity Date of Sold Security	6/2/26
Days Difference	141
Original Purchase Par	25,000,000
Original Purchase Price	100.0000
Original Purchase Principal	-25,000,000
Sale Yield	3.62%
Sale Price	99.0320
Sale Principal	24,758,000
Loss on Sale	-242,000
Original YTM of Sold Security	1.11%
Interest/Yield Given Up on Sold Security to Maturity Date from Sale Date	-107,199
Net Cash Flow on Sold Security	-349,199
New Purchase Principal	24,758,000
New Purchase Yield	3.75%
Interest from Purchase Date to Maturity of New Bond	358,652
Gain/Loss on Swap	9,453

Prudent Diversification Among Asset Classes and Investment Types and Maturities

Other Allowable Asset Classes to Consider

Asset-Backed Securities



Federal Agency Mortgage-Backed Securities



SOURCE: SHUTTERSTOCK. FOR ILLUSTRATIVE PURPOSES ONLY.

Hypothetical Portfolio Illustration

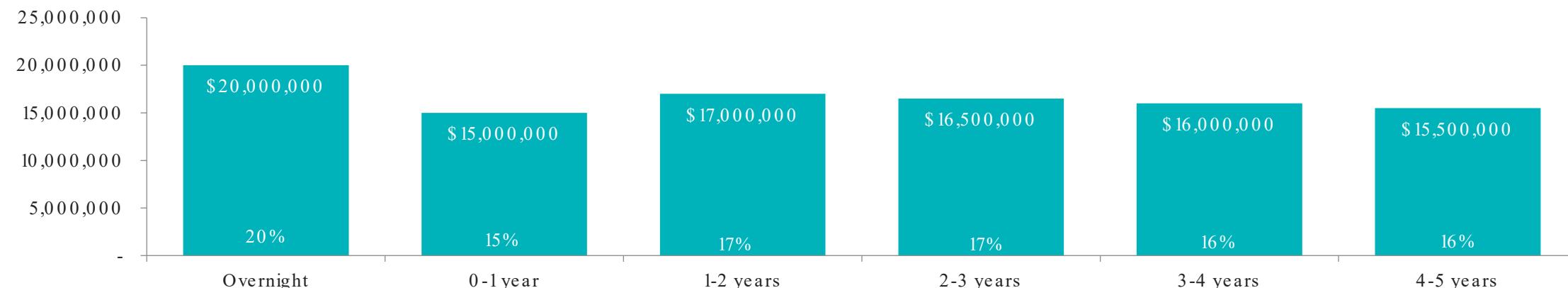
Sample Portfolio

Cash/Overnights	\$20,000,000
Securities	\$80,000,000
Total Portfolio	\$100,000,000

Sample Securities

Weighted Average Maturity

2.07 years



PORTFOLIO ILLUSTRATION IS HYPOTHETICAL IN NATURE, DOES NOT REFLECT ACTUAL INVESTMENT RESULTS, AND DOES NOT GUARANTEE FUTURE RETURNS. THE PORTFOLIO ILLUSTRATION PROJECTS THE WEIGHTED AVERAGE YIELD OF A HYPOTHETICAL PORTFOLIO INVESTED ON THE DATE SHOWN AND ALLOCATED ACROSS THE INDICATED ASSET CLASSES AND MATURITIES. THE ILLUSTRATION UTILIZES APPROPRIATE INDEXES AND BENCHMARKS TO PROJECT THE AVERAGE WEIGHTED YIELD OF THE ILLUSTRATED PORTFOLIO. CLIENTS INVESTED CONSISTENTLY WITH THE PORTFOLIO MAY HAVE EXPERIENCED INVESTMENT RESULTS MATERIALLY DIFFERENT FROM THOSE PORTRAYED IN THE ILLUSTRATION. ACTUAL YIELD FOR ANY PORTFOLIO INVESTED IN ACCORDANCE WITH THE ILLUSTRATION WILL VARY FROM THE HYPOTHETICAL DATA SHOWN HERE.. NET INCOME REPRESENTS GROSS PROJECTED INCOME REDUCED BY THE PROPOSED INVESTMENT ADVISORY FEE OF 15 BASIS POINTS.

- Benchmarking Performance

Benchmark Your Investment Program and Portfolio in Multiple Ways

When performance is measured, performance improves. When performance is measured and reported, the rate of improvement accelerates.

— THOMAS S. MONSON

Your Investment Report Should Be on Your Website

SOURCE: [HTTPS://WWW.SHUTTERSTOCK.COM/IMAGE-GENERATED/SHERLOCK-HOLMES-VIDEO-GAME-2425775005](https://www.shutterstock.com/image-generated/sherlock-holmes-video-game-2425775005)

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.



Important Benchmark Characteristics

To be relevant, benchmarks should reflect the general characteristics of a portfolio's

- Duration/maturity
- Sector allocations
- Turnover

THREE TYPES OF BENCHMARKING

- Weighted yield
- Book rate of return
- Total rate of return



Book Return vs. Total Return:

Budget Stability..Good Luck Budgeting Total Return

Book Return =

- + Accrued/Received Interest
- +/- Amortization of Premiums/Discounts
- +/- Realized Gains/Losses

Average Daily Book Balance for the Period

Total Return =

- + Accrued/Received Interest
- +/- Realized/Gains Losses
- +/- Unrealized Gains/Losses

Average Daily Book Balance for the Period



SOURCE: MEEDER PUBLIC FUNDS

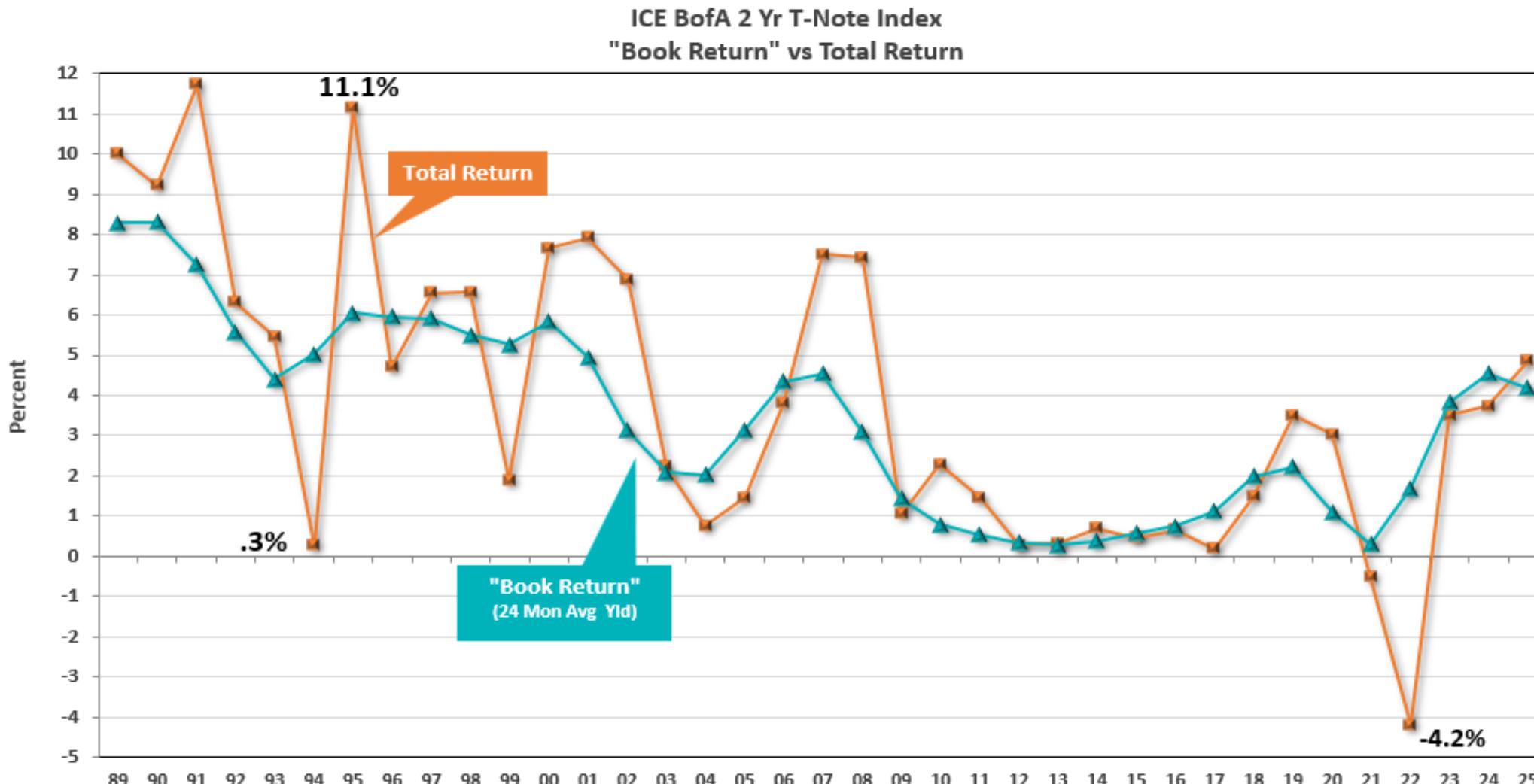
Under Total Return

- Gains/losses are treated the same as income

GASB 31

- It's similar to running the market value changes of your home through your checking account

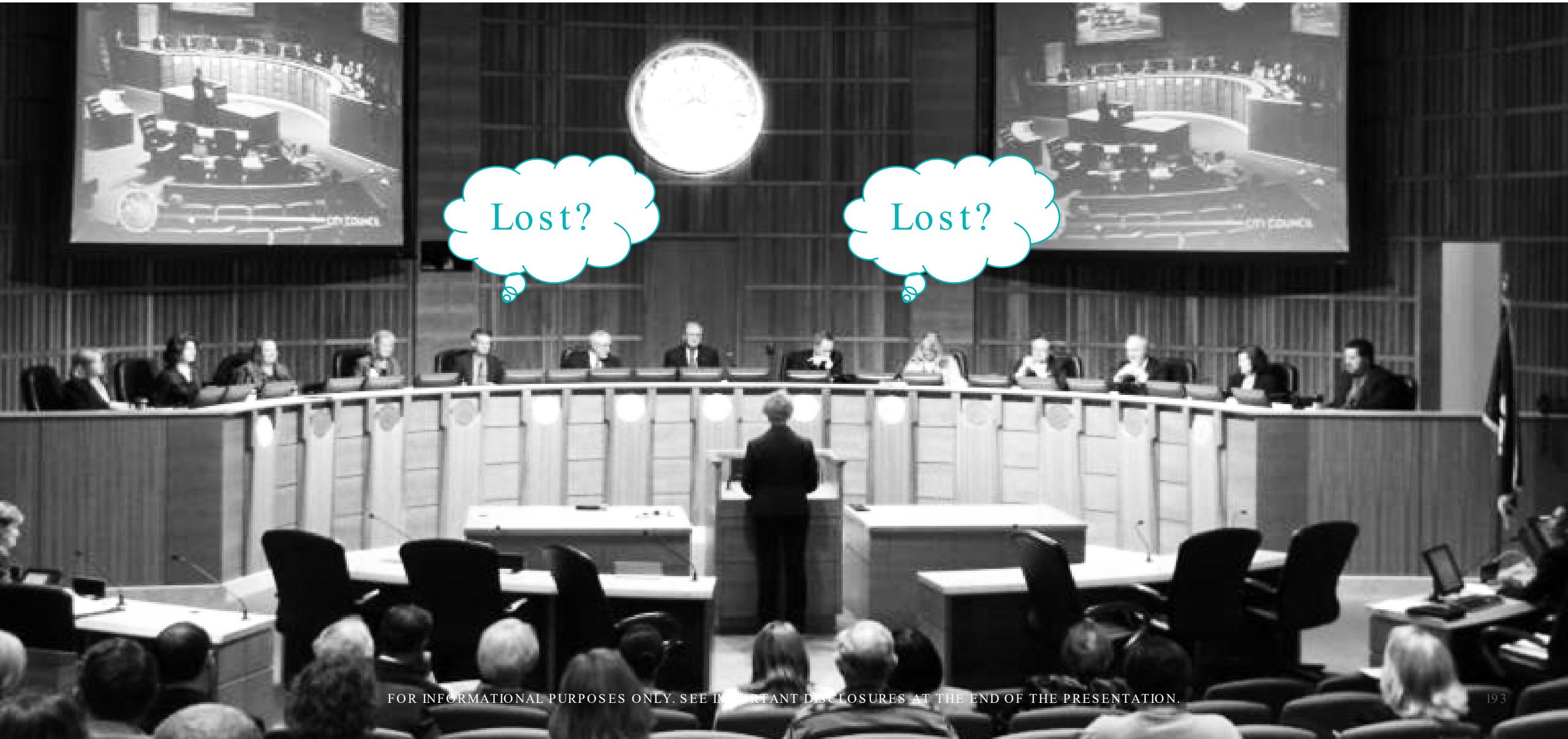
Book and Total Return Details



SOURCE: BLOOMBERG. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.

Communication is Key!



QUESTIONS?

RICK PHILLIPS

Chief Investment Strategist
Meeder Public Funds



Disclosures



The performance data shown represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's investment, when redeemed, may be worth more or less than their original cost.

The views expressed herein are exclusively those of Meeder Investment Management, Inc., are not offered as investment advice, and should not be construed as a recommendation regarding the suitability of any investment product or strategy for an individual's particular needs. Investment in securities entails risk, including loss of principal. Asset allocation and diversification do not assure a profit or protect against loss. There can be no assurance that any investment strategy will achieve its objectives, generate positive returns, or avoid losses.

Commentary offered for informational and educational purposes only. Opinions and forecasts regarding markets, securities, products, portfolios, or holdings are given as of the date provided and are subject to change at any time. No offer to sell, solicit, or recommend any security or investment product is intended. Certain information and data has been supplied by unaffiliated third parties as indicated. Although Meeder believes the information is reliable, it cannot warrant the accuracy, timeliness or suitability of the information or materials offered by third parties.

Investment advisory services offered by Meeder Public Funds. Meeder Public Funds, Inc. is a registered investment adviser with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended. Registration with the SEC does not imply a certain level of skill or training.

Meeder Public Funds is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.NASBAREgistry.org.

© 2026 Meeder Investment Management



Meeder Public Funds is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.NASBAREgistry.org.

Meeder Public Funds

Columbus, Ohio

Phoenix, Arizona

Long Beach, California

Denver, Colorado

Lansing, Michigan

Las Vegas, Nevada

Austin, Texas

Salt Lake City, Utah

meederpublicfunds.com
866.633.3371

0315-MPF-1/16/26_53268



MeederPublicFunds.com

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.



BREAK

SESSION SIX

Investment Accounting and Disclosure



ALAYNÈ MARIE SAMPSON

Portfolio Strategy Manager
Chandler Asset Management



KEVIN SHIRAH

Director of Finance
City of Lake Forest



What is your role at your public agency?

- ⓘ The Slido app must be installed on every computer you're presenting from

SESSION TAKEAWAYS



GASB STATEMENT No. 40

Deposit and Investment
Risk Disclosures

An amendment to GASB Statement No. 3

What Risks Exist?

Where could our public money be exposed — and why?



GASB 40 explains exposure and safeguards, not outcomes or losses.

GASB 40 Scope and Applicability

- Scope
 - Defines common risks of deposit and investment risks (and related required disclosures)
- How are Investment Disclosures organized?
 - By type
 - E.g., U.S. Treasuries, corporate bonds, etc.
- Where are disclosure requirements defined?
 - Government's deposit and investment policies



Deposit and Investment Policy Disclosure



Government should briefly describe policies related to GASB 40 related risks

- Allowable investments
- Differences between investment policy and state laws
- Disclosures of violations of policy required

Deposit and Investment Policy Disclosure Example

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Investment Per Issuer
U.S. Agencies	5 years ¹	100%	100%
U.S. Treasury	5 years ¹	100%	100%
Bankers' Acceptances	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Non-Negotiable Certificates of Deposit	5 years	20%	5%
Repurchase Agreements	1 year	100%	100%
Mutual Funds	5 years	20%	5%
Money Market Mutual Funds	5 years	20%	20%
Municipal Bonds	5 years ¹	30%	5%
Medium-Term Corporate Notes	5 years	30%	5%
Supranational Obligations	5 years	15%	5%
Local Agency Investment Fund (LAIF)	None	Code ²	Code ²
California Asset Management Program (CAMP)	None	100%	100%

¹ The Maximum Maturity for U.S. Treasury and Federal Agency obligations and Municipal Bonds is five years for all funds with the exception of the following:

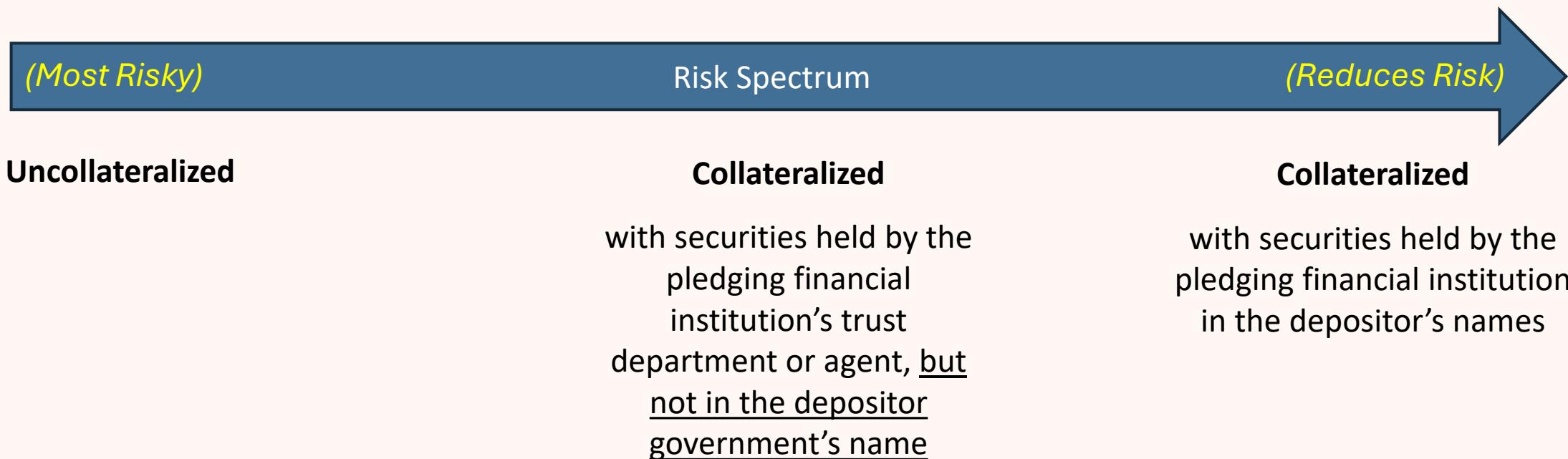
- a. Debt Service Reserve funds in accordance with respective bond covenants restrictions and Attachment 2 of the Agency Investment Policy and Guidelines.
- b. The Geo Decommissioning Fund in accordance with Attachment 2 of the Agency Investment Policy and Guidelines.

² Up to maximum permitted by California Government Code

Custodial Credit Risk - Deposits



Deposits are exposed to custodial credit risk if they are not covered by **depository insurance** **AND** the deposits are:



Custodial Credit Risk – Deposits Disclosures

- If applicable, Local Agency should disclose
 - ❖ Amounts of those bank balances
 - ❖ The fact that the balances are uninsured
 - ❖ Whether the balances are exposed on the basis of
 - **Uncollateralized**
 - Collateralized with securities held by the pledging financial institution, or
 - Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name



Custodial Credit Risk - Investments

- Investments are exposed to custodial credit risk if the securities are
 - Uninsured
 - Are not registered in the name of the government **AND**
 - Held by either the **counterparty** or
 - The counterparty's trust department or agent but not in the government's name
- If exposure exists, should disclose
 - Investment type
 - Reported amount
 - How investments are held



Credit Risk

- The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- Disclose State laws or local policy requirements associated with the risk, which is when a minimum rating has been specified
- Disclose credit quality ratings of investments by an NRSRO as of the balance sheet date
 - U.S. Gov't or obligations explicitly guaranteed by the U.S. Gov't are exempt
 - For example, Treasury and GNMA, but not FHLMC, FNMA
- Disclose unrated investments
 - NOTE – If investments are not rated by the NRSRO used for disclosure, but are by another, consider a footnote
- Credit quality modifiers are not required (Aa1, Aa2, Aa3)

Bond Credit Ratings

Moody's		S&P		Fitch		Rating description	
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+		A+	F1	Investment-grade	
A2		A		A			
A3		A-		A-			
Baa1	P-2	BBB+	A-2	BBB+	F2		
Baa2		BBB		BBB			
Baa3		BBB-	A-3	BBB-	F3	Lower medium grade	

- **Credit Outlook**
 - Evaluates the financial condition of the issuer in relation to the economic environment
- **Credit Watch**
 - Formal warning of the possible deterioration or upgrade of the financial strength and ability of the issuer to meet their debt obligations

Concentration of Credit Risk

Concentration of Credit Risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer.

Any one issuer that represents **5 percent or more** of net assets of portfolio

Required to identify by amount and issuer

Excluded Investments:

- Issued or explicitly guaranteed by U.S. Government
- Mutual funds
- External investment pools
- Other pooled investments

Interest Rate Risk

The risk that changes in interest rates will adversely affect the fair value of an investment

- Governments should disclose by using one of the following a disclosure methods:
 1. Segmented time distribution
 2. Specific identification
 3. Weighted average maturity
 4. Duration
 5. Simulation model
- Investments in mutual fund, external investment pools, or other pooled investments should be listed as one investment
- Also disclose the terms of investments with fair values that are *highly sensitive* to changes in interest rates – for example, callable securities



Things That May Factor into Investments that are Highly Sensitive to Interest Rate Changes

- Term to maturity of investment
- Likelihood of exercise of any embedded options
- Caps or floors may be reached
- The size of the portfolio relative to the cash needs
- Consequences of liquidity tightening by the government
- Investment objective of the portfolio (e.g. short-term vs. long-term)

Interest Rate Risk (cont. 2 of 2)

Sample disclosure for investments with fair values highly sensitive to interest rate changes

The Entity's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

Highly Sensitive Investments

Fair Value at Year End

Federal agency securities with coupon multipliers ranging from 1.25 to 2.5 times the three-month LIBOR reset on a basis ranging from monthly to semiannually. These multipliers amplify the effect of interest rate changes by greater than a one-to-one basis.

\$3,000,000

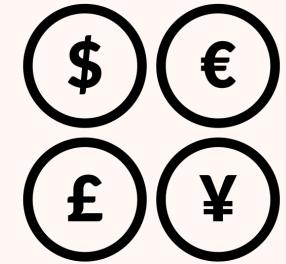
Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

3,000,000

Federal agency securities with interest rates that vary inversely to a benchmark index set quarterly that ranges from 2 percent to 4.5 percent minus the three-month LIBOR and with floors ranging from zero to one percent. These were purchased at a time when the California Government Code permitted the purchase of such investments.

1,000,000

Foreign Currency Risk



- ***Foreign Currency Risk*** - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.
- Applicable to governments that have deposits or investments denominated in foreign currencies
- Government should disclose the U.S. dollar balances of such deposits or investments
- Organized by
 - Currency denomination
 - Investment type, if applicable

Recognition And Reporting

- Impact on financial statements?
 - Disclosure of risks to cash and investments critical to government's programs and services
- Reports impacted
 - Annual audited financial statements
 - Treasurer's Report



Sample GASB 40 Report

Sample Client		GASB 40 Report						CMM		
Account #####		As of December 31, 2023								
Portfolio Characteristics			Interest Rate Shock Analysis							
Market Value			Fair value of portfolio after increase of:							
Avg Modified Duration			100 bps						-655,094.61	
Avg Maturity			200 bps						-1,310,189.22	
			300 bps						-1,965,283.83	
Sector Characteristics										
Sector	Market Value	Avg Mod. Duration	Avg Maturity	% of Port	<1 YR	1-3 YRS	3-5 YRS	>5 YRS		
US Treasury	12,023,907.78	1.72	1.83	31.58%	2,898,750.75	6,860,137.98	2,265,019.05	0.00		
Corporate	10,581,253.52	1.30	1.45	27.79%	3,656,767.38	5,807,723.26	1,116,762.88	0.00		
Agency	8,757,417.42	2.39	2.60	23.00%	1,839,591.37	4,275,466.84	2,642,359.21	0.00		
CMO	3,097,317.61	1.73	1.97	8.14%	733,532.70	1,661,881.11	701,903.80	0.00		
ABS	2,833,327.85	1.15	3.24	7.44%	0.00	1,024,495.68	1,808,832.17	0.00		
Supranational	708,544.69	2.20	2.48	1.86%	361,433.59	0.00	347,111.10	0.00		
Money Market Fund	71,242.78	0.00	0.00	0.19%	71,242.78	0.00	0.00	0.00		
TOTAL	38,073,011.65	1.72	2.02	100.00%	9,561,318.57	19,629,704.87	8,881,988.21	0.00		
Concentration of Credit										
Issuer Name	Cost	Market Value	Avg Mod. Duration	Avg Maturity	% of Port					
Government of United States	11,924,098.65	12,023,907.78	1.72	1.83	31.58%					
Federal Farm Credit Bank	5,186,989.90	5,183,519.53	2.34	2.56	13.61%					
Federal Home Loan Bank	3,072,552.45	3,106,439.39	2.58	2.80	8.16%					
Federal Home Loan Mortgage Corp	3,101,680.72	3,097,317.61	1.73	1.97	8.14%					
American Express ABS	599,432.55	602,282.94	1.02	3.07	1.58%					
Paccar Financial	474,210.80	472,179.64	2.09	2.28	1.24%					
Federal National Mortgage Association	456,750.00	467,458.50	1.61	1.65	1.23%					
Florida Power and Light	446,175.00	450,719.55	3.78	4.38	1.18%					
Home Depot	448,560.00	445,832.10	1.61	1.71	1.17%					
...										
TOTAL		70,144,135.06								



Mark all risks that must be disclosed under GASB 40

- ⓘ The Slido app must be installed on every computer you're presenting from

GASB 40 Takeaway



Deposit & Investment Risk Disclosures

These disclosures aren't just compliance — they're how we show the public we safeguard their money

- Explaining risk, not predicting loss.
- *Where* money is exposed and *why*, not whether something went wrong

GASB Statement No. 31

Financial Accounting and Reporting for
Governmental Entities

How Do Investment Values Change?



Why does the value of our investments go up or down even when we don't sell anything?



GASB 31 shows how market conditions affect reported investment values.

Key Concepts



Investment

A security or other asset acquired primarily for the purpose of obtaining income or profit

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Amortized Cost

Par value of an investment adjusted for accreted premium/discount and accrued interest paid at the time of purchase

GASB 31 Scope And Applicability

Scope

All investments held by governmental external investment pools



Exclusion

Governmental entities
excluding

Some external investment
pool investments

Defined benefit pension plans

IRS Code Section 457 Deferred
Compensation Plans



Replaces

Replaces previous GASB term market value with the term fair value



Reporting

Generally required to be reported at fair value regardless of intent to hold to maturity



Accounting Options

- **Option 1** – Record Investments at Cost; Adjust to Fair Value at Year End
 - Simple
 - *Downside* = no recognition of fair value change during year that will be recognized at year end
- **Option 2** – Record Investments at Cost; Amortize Discount; Adjust to Fair Value at Year End
 - Monthly amortization of discount approximates the monthly change in fair value
 - Smaller fair value adjustment at year end
 - *Downside* = may require more time to calculate and amortize premiums/discounts each month
- **Option 3** – Record Investments at Cost; Adjust to Fair Value each Month
 - Recognizes the full amount of the fair value adjustment each period
 - Smaller fair value adjustment at year end
 - *Downside* = may require more time to calculate the fair value adjustment each month and may distort available/spendable in funds during the year

Differentiating Between Cost, Book, and Fair Values

Cash

****Cost Value****

Price paid for the asset.
Does not change.



\$500,000

Amortized

****Book Value****

The accounting value of the asset.



\$450,000

Fair Value

****Market Value****

The market value of the asset.



\$700,000

Colloquial, imprecise verbiage often tossed around in non-accounting spaces

Recognition And Reporting

- Impact on financial statements?
 - Applicable investments restated at fair value
 - Change in fair value reflected in operating statement
 - Rolled into net investment income
 - Realized and unrealized gains/losses both reported on same line
 - Permits disclosure of realized gains in footnotes
- Reports impacted
 - Monthly Treasurer's Report
 - Monthly/Quarterly unaudited financial statements
 - Annual audited financial statements



Sample Disclosure Options - Specific

Change in Fair Value of Investments, June 30, 2023

Fair Value Analysis of Investment Activity - Specific Identification Method

Security	Cost	Fair Value						Change in Fair Value
		A Beginning Fair Value 7/01/2022	B Purchases	C Sales	D Subtotal	E Ending Fair Value 06/30/2023	F	
1	\$ 100,000	\$ 120,000	\$ 625,000	\$ 100,000	\$ 645,000	\$ 625,000		\$ (20,000)
2	250,000	245,000	150,000	-	395,000	425,000		30,000
3	500,000	565,000	250,000	500,000	315,000	315,000		-
4	250,000	226,000	250,000	75,000	401,000	350,000		(51,000)
	\$ 1,100,000	\$ 1,156,000	\$ 1,275,000	\$ 675,000	\$ 1,756,000	\$ 1,715,000		\$ (41,000)

Sample Disclosure Options - Aggregate

Change in Fair Value of Investments, June 30, 2023

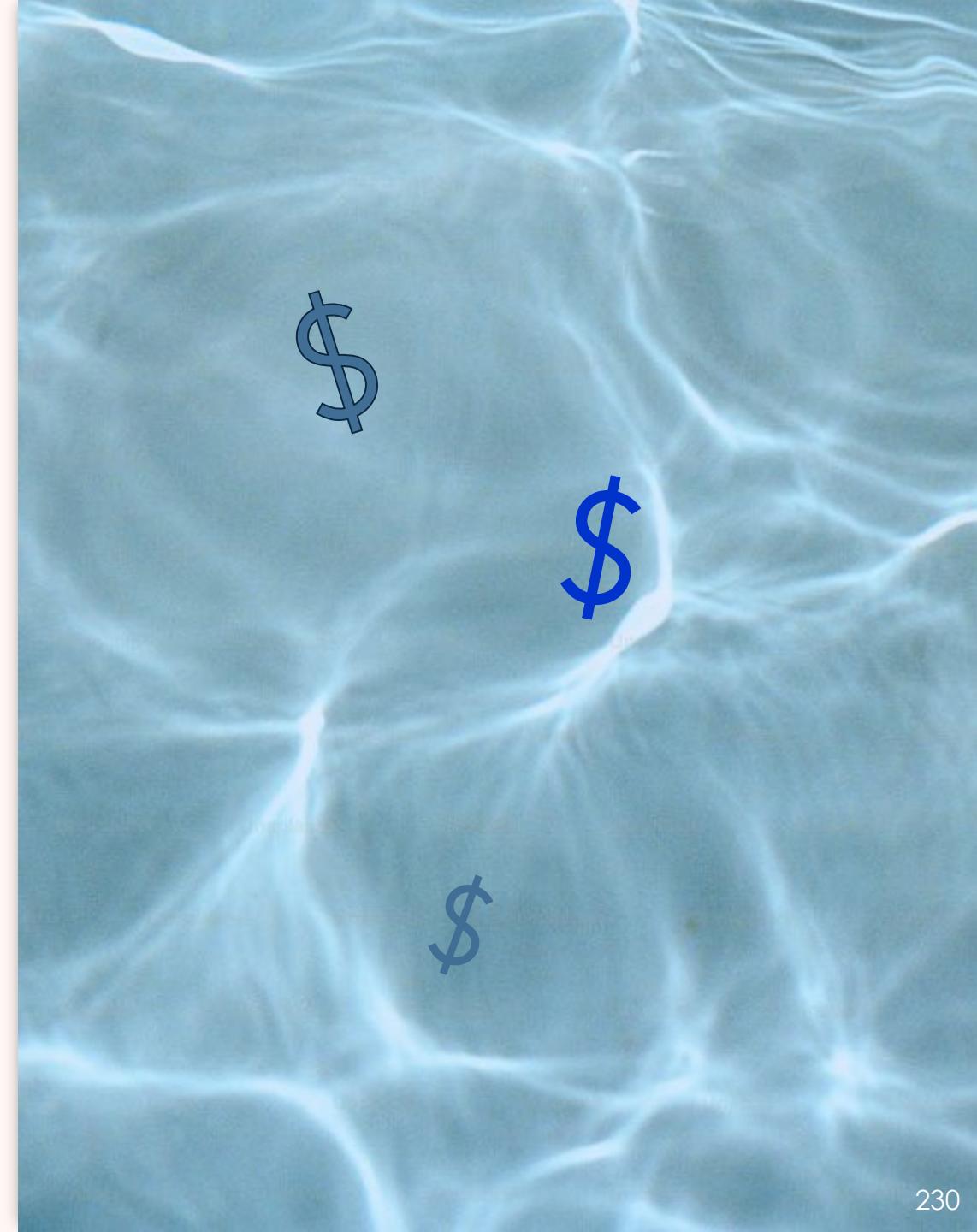
Calculation of the Net Change in the Fair Value of Investments - Aggregate Method

Fair Value at June 30, 2023	\$ 1,715,000
Add: Proceeds of investments sold in 2023	675,000
Less: Cost of investments purchased	(1,275,000)
Less: Fair Value at July 31, 2022	<u>(1,156,000)</u>
Change in Fair Value of Investments	\$ (41,000)

Investment In Local Government Pool

- A local government's investment in LAIF, a county pool, other external pools must also be reported at fair value
- This would be based upon a proportionate assignment of the total fair value of all the investments in the pool as a percentage of the total cost (carrying value) of the pool
- For LAIF, this information can be obtained at:

<http://www.treasurer.ca.gov/pmia-laif/reports/valuation.asp>



LAIF

Fair value: \$179,153,321,241.47

Divided by
Amortized
Cost: \$178,938,897,011.95
= 1.001198310

An Agency's LAIF investment of \$60,000,000 at 12/31/25 would have a fair value of \$60,071,898.6 (\$60,000,000 x 1.001198310)

For LAIF, this information can be obtained at:

<http://www.treasurer.ca.gov/pmia-laif/reports/valuation.asp>

State of California Pooled Money Investment Account Market Valuation 6/30/2025					
Description	Carrying Cost Plus Accrued Interest Purch.		Amortized Cost	Fair Value	Accrued Interest
United States Treasury:					
Bills	\$ 53,070,105,400.83	\$ 53,553,235,136.11	\$ 53,553,095,196.50		NA
Notes	\$ 45,065,440,536.21	\$ 45,017,038,229.84	\$ 45,220,920,060.50	\$ 456,554,961.50	
Federal Agency:					
SBA	\$ 241,952,774.98	\$ 241,882,090.69	\$ 244,164,765.36	\$ 966,339.45	
MBS-REMICs	\$ 1,062,524.00	\$ 1,062,524.00	\$ 1,053,290.67	\$ 4,635.17	
Debentures	\$ 6,975,704,585.76	\$ 6,975,704,585.76	\$ 6,979,649,750.00	\$ 56,993,149.00	
Debentures FR	\$ -	\$ -	\$ -	\$ -	
Debentures CL	\$ 3,350,000,000.00	\$ 3,350,000,000.00	\$ 3,360,195,500.00	\$ 27,168,533.00	
Discount Notes	\$ 30,815,944,152.72	\$ 31,081,797,090.46	\$ 31,069,446,050.00		NA
Supranational Debentures	\$ 3,985,672,458.38	\$ 3,983,248,483.36	\$ 3,993,975,100.00	\$ 38,528,655.00	
Supranational Debentures FR	\$ -	\$ -	\$ -	\$ -	
CDs and YCDs FR	\$ -	\$ -	\$ -	\$ -	
Bank Notes	\$ -		\$ -	\$ -	
CDs and YCDs	\$ 16,250,000,000.00	\$ 16,250,000,000.00	\$ 16,248,094,811.24	\$ 174,922,944.49	
Commercial Paper	\$ 11,878,071,791.64	\$ 11,988,394,027.79	\$ 11,988,292,097.20		NA
Corporate:					
Bonds FR	\$ -	\$ -	\$ -	\$ -	
Bonds	\$ 952,811,187.28	\$ 952,792,103.94	\$ 950,691,880.00	\$ 9,631,480.55	
Repurchase Agreements	\$ -	\$ -	\$ -	\$ -	
Reverse Repurchase	\$ -	\$ -	\$ -	\$ -	
Time Deposits	\$ 5,281,000,000.00	\$ 5,281,000,000.00	\$ 5,281,000,000.00		NA
PMIA & GF Loans	\$ 262,742,740.00	\$ 262,742,740.00	\$ 262,742,740.00		NA
TOTAL	\$ 178,130,508,151.80	\$ 178,938,897,011.95	\$ 179,153,321,241.47	\$ 764,770,698.16	

Fair Value Including Accrued Interest \$ 179,918,091,939.63

Repurchase Agreements, Time Deposits, PMIA & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).

The value of each participating dollar equals the fair value divided by the amortized cost (1.001198310)
As an example: if an agency has an account balance of \$20,000,000.00, then the agency would report its participation in the LAIF valued at \$20,023,966.20 or \$20,000,000.00 x 1.001198310

Fair Value Examples – By Asset Class

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
CD									
90MALA\$03	Malaga Bank CD 1.48% Due 7/28/2023	250,000.00	07/28/2022 1.48%	250,000.00 250,000.00	100.00 1.46%	250,000.00 3,473.89	0.35% 0.00	NR / NR NR	0.08 0.08
INVESTMENT POOL									
90LGIP\$81	LGIP California CLASS Prime	22,578,432.00	Various 2.05%	22,578,432.00 22,578,432.00	1.00 2.05%	22,578,432.00 0.00	31.05% 0.00	NR / AAA NR	0.00 0.00
Total Investment Pool		22,578,432.00	2.05%	22,578,432.00	2.05%	22,578,432.00	31.05%	NR / AAA	0.00
LAIF									
90LAIF\$00	Local Agency Investment Fund State Pool	2,122,378.00	Various 3.26%	2,122,378.00 2,122,378.00	1.00 3.26%	2,122,378.00 15,883.52	2.94% 0.00	NR / NR NR	0.00 0.00
Total LAIF		2,122,378.00	3.26%	2,122,378.00	3.26%	2,122,378.00	2.94%	NR / NR	0.00
MONEY MARKET FUND									
564996503	City First Bank Cash	750,000.00	05/31/2023 0.00%	750,000.00 750,000.00	1.00 0.00%	750,000.00 0.00	1.03% 0.00	NR / NR NR	0.00 0.00
316175603	Fidelity Institutional Government MMKT Fund #657	4,973,108.22	Various 4.73%	4,973,108.22 4,973,108.22	1.00 4.73%	4,973,108.22 0.00	6.84% 0.00	Aaa / AAA NR	0.00 0.00
US TREASURY									
9128286L9	US Treasury Note 2.25% Due 3/31/2026	1,100,000.00	10/20/2022 4.56%	1,019,906.25 1,036,026.95	94.10 4.56%	1,035,074.70 6,221.31	1.43% (952.25)	Aaa / AA+ AAA	2.75 2.61

★ Some Public Agencies fair value LAIF and Local Investment Pools in Interim periods, as well as annually.



How many times a year must your agency fair value the portfolio?

- ⓘ The Slido app must be installed on every computer you're presenting from

GASB 31 Takeaway



Investments at Fair Value

Fair value isn't a cash loss — it's a snapshot of market conditions so stakeholders see the real picture.

- Fair value answers one question: what would someone pay today?
- This adjustment exists even if no cash is bought or sold.

GASB STATEMENT No. 72

Fair Value Measurement
and Application

How Those Values Are Measured?



How did you come up with that value — and how much confidence should I have in it?



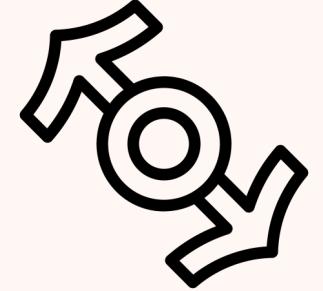
GASB 72 explains the inputs and methods behind fair value, not the riskiness of the investment.

GASB 72 – Why?

- GASB 31 already generally requires investments be reported at fair value in financial statements
- This statement
 - Expands the definition of investments required to be reported at fair value (application)
 - Clarifies how fair value should be measured
 - Sets the goal to maximize observable inputs and minimize unobservable inputs (measurement)
 - Expands the disclosures required in the footnotes for fair value (disclosures)



Expanded Investment Definition



- A security or other asset acquired primarily for the purpose of obtaining income or profit
- With a *present service capacity* that is based solely on its ability to generate cash, be sold to generate cash, or to procure services for the citizenry

GASB 72 Application Considerations

Price and Transaction Costs

The price in the market should not include transaction costs



Markets

Assume that a transaction to sell or transfer takes place

principal market or

most advantageous market in the absence of a principal market



Unit of Account

Measurement might be for a single asset/ liability or a group of related assets and liabilities (e.g. partnership)



Asset or Liability

Measurement focus on mirroring what market participants would consider when valuing

Valuation Techniques And Approaches

Use valuation techniques that are appropriate under the circumstances and for which sufficient data are available

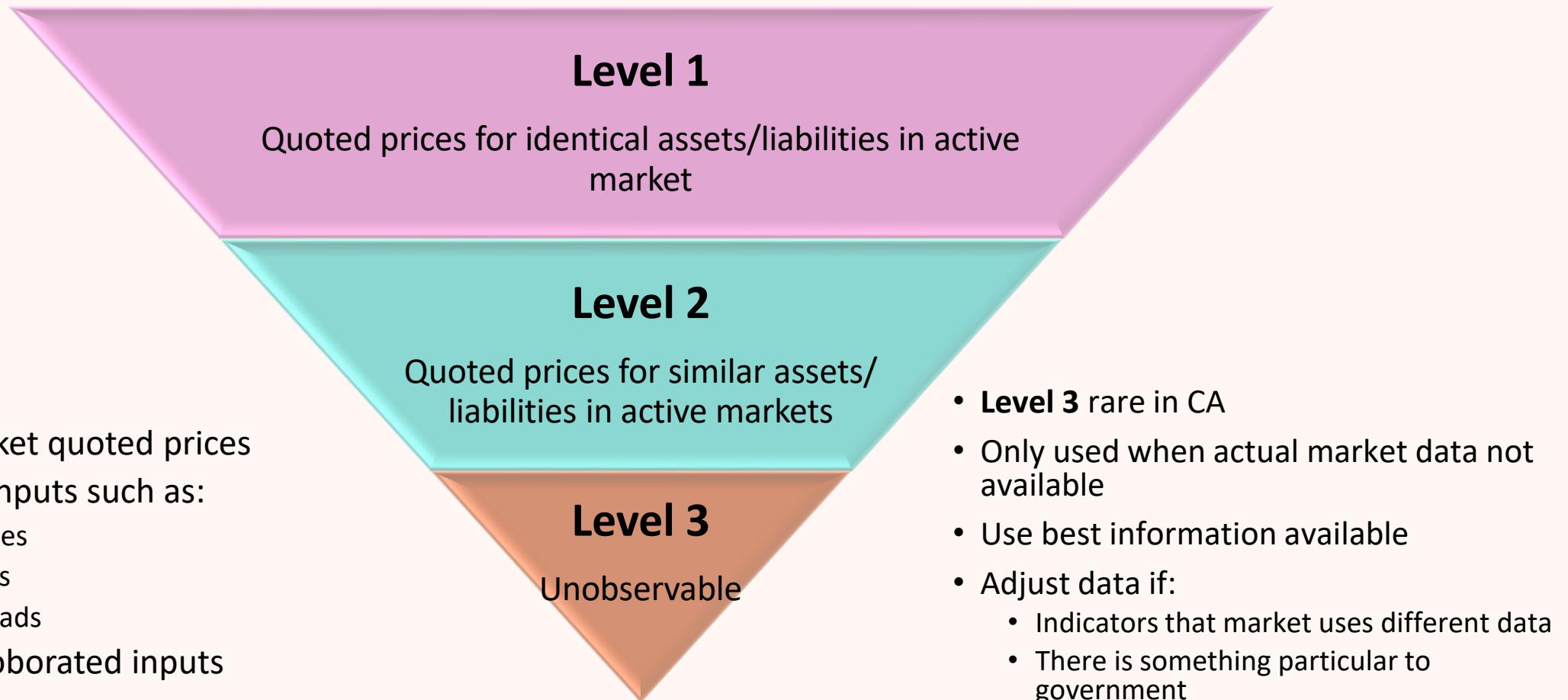
Market Approach
Uses prices and other relevant information generated by market transactions

Cost Approach
Reflects replacement cost of the present service capacity of an asset

Income Approach
Converts expected future amounts to a single current amount (e.g. present value, option pricing models, etc.)

- Revisions to fair value due to a change in technique is **considered a change in accounting estimate**
- Applied in current period and disclosed in the footnotes

Hierarchy of Fair Value Inputs



Fair Value Category Examples

Level 1

US Treasury
Securities

Level 2

Federal Agencies

Corporate Bonds

Municipal Bonds

Level 3

*Should be Rare in CA
(Derivatives)*

Don't Include in Fair Value Hierarchy

- Money Market Funds
- LAIF
- CAMP
- Other external investment pools

Common
example, but
depends on
your own facts
and
circumstances

External Investment Pools – GASB 72/79

- Per GASB 79, an external investment pool can elect to measure investments at amortized cost
 - If pool is compliant with GASB 79 and elects to do so, the government measures the investment at amortized cost, and it should **not be categorized** within the fair value hierarchy
 - **If the pool measures investments at fair value, the government measures the investment at fair value, but is not required** to categorize the investment within the **fair value hierarchy**



Note Disclosures

- Organized by type or class of asset/liability
- Information for each class or type of asset/liability
 - Fair value measurement at the end of reporting period
 - Level of hierarchy
 - Description of valuation techniques
- For fair value measurements categorized within Level 3
 - Effect of those investments on investment income





**Which of the following are acceptable valuation techniques?
Mark all that apply.**

- ① The Slido app must be installed on every computer you're presenting from

Disclosure of Fair Value Inputs

The City categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair Value Hierarchy</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
US Treasury Notes	\$15,290,373	-	-	15,290,373
Federal Agency securities	-	10,000,000	-	10,000,000
Negotiable CDs	-	9,197,337	-	9,197,337
Corporate Bonds	-	3,773,445	-	3,773,445
 Total investments	<u>\$15,290,373</u>	<u>22,970.782</u>	<u>-</u>	<u>38,261,155</u>

NOTE: Unless notes include reconciliation of investments NOT measured at fair value, this schedule will not agree to other investment schedules in the notes.

Sample GASB 72 Report

Sample Client

Account ###

GASB 72 - Fair Value Measurements

As of December 31, 2023



Asset	Fair Value	Investments That Are Not Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ABS	\$2,833,327.85	\$0.00	\$0.00	\$2,833,327.85	\$0.00
Agency	\$8,757,417.42	\$0.00	\$0.00	\$8,757,417.42	\$0.00
CMO	\$3,097,317.61	\$0.00	\$0.00	\$3,097,317.61	\$0.00
Corporate	\$10,581,253.52	\$0.00	\$0.00	\$10,581,253.52	\$0.00
Money Market Fund	\$71,242.78	\$71,242.78	\$0.00	\$0.00	\$0.00
Supranational	\$708,544.69	\$0.00	\$0.00	\$708,544.69	\$0.00
US Treasury	\$12,023,907.78	\$0.00	\$0.00	\$12,023,907.78	\$0.00
TOTAL PORTFOLIO	\$38,073,011.65	\$71,242.78	\$0.00	\$38,001,768.87	\$0.00

Recognition And Reporting

- Impact on financial statements?
 - Method of determining fair value disclosed
- Reports impacted
 - Annual audited financial statements





If you wanted to sell your agency's bond in the market on 12/18/2025, how could you convince someone to buy your bond?

- ⓘ The Slido app must be installed on every computer you're presenting from

AUDIENCE PRACTICE #5 Continued

Interest Rates and Fair Value Calculations on Excel

Excel Formula: PV (rate, nper, pmt, FV, [type])

	Field Meaning	Plain English	Value
Rate	Market Interest Rate	Yield-to-Maturity	3.45%/2
NPER	Number of Periods	Number of Interest Payments Left	2 years * 2 payments = 4
PMT	Payment	Each Coupon Payment (\$)	+\$2.00/2
FV	Future Value	Face (Par) Value	100
PV	Present Value	Current Price of Bond	Solve for PV 101.05

US Treasuries pay interest semi-annually!

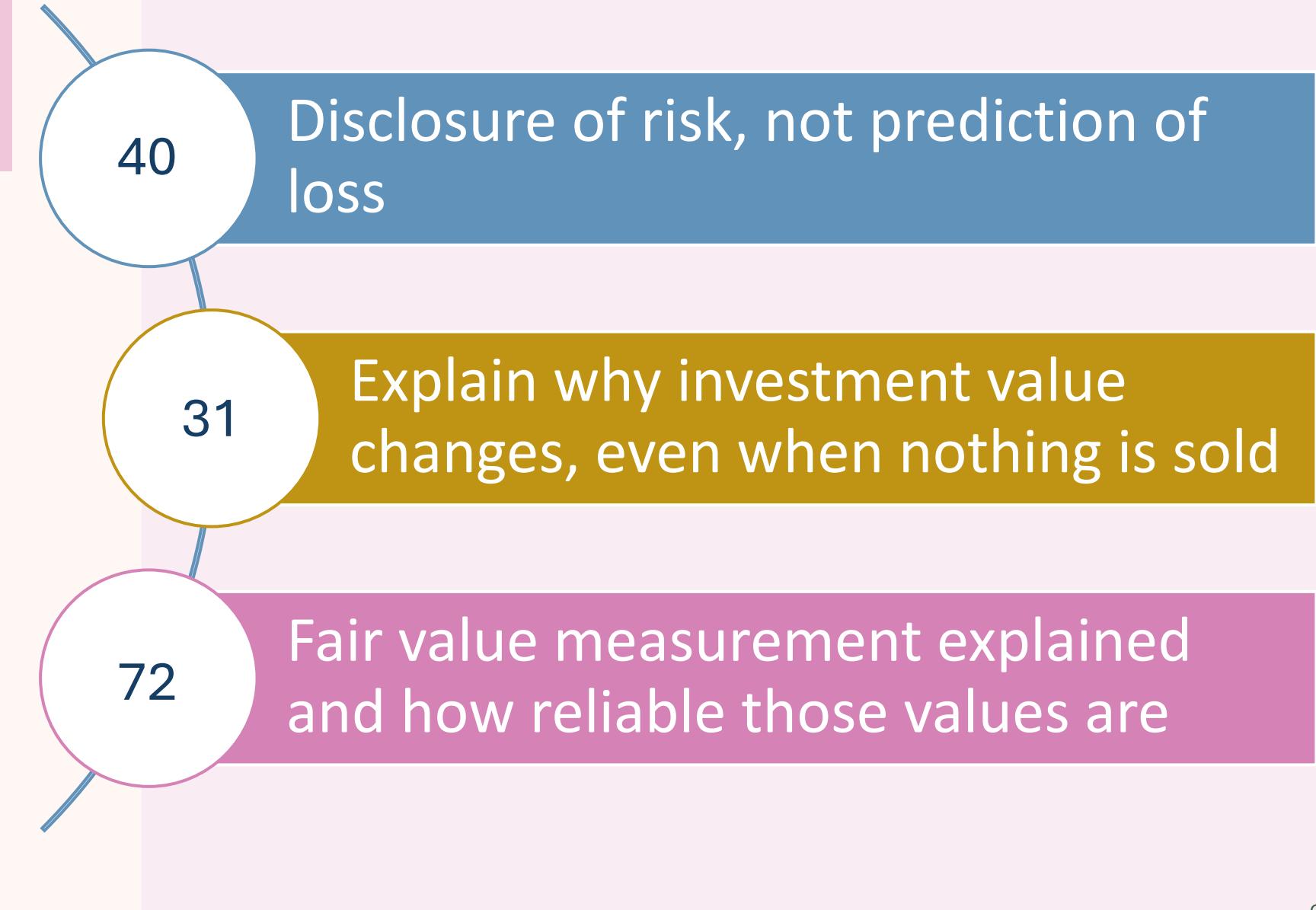


Fair Value Measurement

Fair value measurement explains *how* values are determined — and how reliable those values are.

- Uses observable market data whenever possible.
- The hierarchy shows confidence in the inputs, not investment risk.

SESSION TAKEAWAYS



QUESTIONS?



ALAYNÈ MARIE SAMPSON

Portfolio Strategy Manager
Chandler Asset Management



KEVIN SHIRAH

Director of Finance
City of Lake Forest



BREAK

SESSION SEVEN

Understanding the Roles and Responsibilities of Investment Advisors and Broker-Dealers



SUSAN MUNSON
Managing Director
Academy Securities, Inc.



MONIQUE SPYKE
Managing Director
PFM Asset Management



HUBIE WHITE, CFA, CTP
Chief Investment Officer
City & County of San Francisco

About This Session

This session will describe the unique roles investment advisors, investment consultants, and broker/dealers play in providing services to public agency investors. Because there is no “one size fits all” solution, understanding the standards of care and business models of providers allows public agency investors to engage a team best suited to meet their needs.

After completing this session, a successful learner will be able to:

- Compare and contrast the roles and responsibilities of investment advisors, investment consultants, and broker/dealers
- Identify levels of fiduciary responsibility and the Municipal Advisor Rule
- Name the factors best considered before engaging service providers

Public Agency Portfolio Objectives



However managed, investment objectives for public agency portfolios are the same:

Safety: Protect principal

Liquidity: Maintain sufficient liquidity

Return: Optimize returns, recognizing need for safety and liquidity

Compliance: Invest funds in accordance with the California Government Code and the Investment Policy

Licensing Matters

- Brokers
 - Series 7 and 63 required
 - FINRA regulated
 - <https://brokercheck.finra.org>
- Registered Investment Advisors
 - Licensed at the firm level
 - SEC regulated
 - Individual licensing may be required depending on activity and state
 - <https://adviserinfo.sec.gov>
- Municipal Advisors
 - Series 50
 - RIAs are exempt
 - <https://www.msrb.org/municipal-advisors>
- Some individuals are dually registered

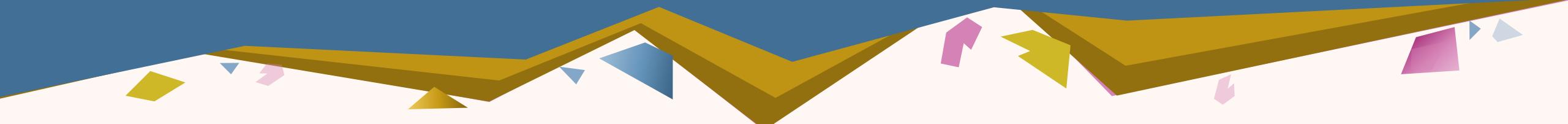
Municipal Advisor Rule

The Municipal Advisor Rule is designed to regulate advisors who provide advice to state and local governments on financial matters, particularly regarding municipal securities and municipal financial products.

Persons who provide advice to municipalities or their agents regarding municipal securities or municipal financial products are required to comply with the rule.

Municipal Advisors must register with the SEC and MSRB.

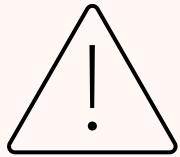
Municipal Advisor Rule (cont. 2 of 2)



- Are there exemptions to the Municipal Advisor Rule?
 - Registered Investment Advisors
 - Broker-dealers serving as underwriters for specific deals
 - Brokers-dealers who do not provide advice on municipal financial products or issuance of municipal securities

Overview of Investment Advisors

Types of Investment Advice



Terms are often used interchangeably

- Non-discretionary
 - Periodic advice
 - Recommendations
 - You approve; advisor executes
- Discretionary
 - Portfolio management within previously established strategy, without prior approval for each transaction
- Other Discretionary
 - LAIF
 - County pools
 - LGIPs
 - Money market funds/mutual funds

What is an Investment Advisor?

- A firm whose job is to help investors achieve their investment goals
 - Scope of services varies among investors and their unique needs
- Owns no securities
- Owns no inventory
- Does not purchase securities for resale to clients
- Competitively procures securities from broker/dealers
- Access to new issues
- Compensation typically based on assets under management

Standard of Care

- Under the Investment Advisers Act of 1940, registered investment advisors are held to a **fiduciary duty**
- A fiduciary must put clients' interests ahead of their own interests when giving advice
- This means that an advisor must:
 - Be loyal to its clients and act in good faith on their behalf
 - Have a reasonable, independent basis for recommendations
 - Seek best execution of clients' transactions
 - Be free of conflicts of interest, or disclose any conflicts of interest or potential conflicts of interest and proceed only with the client's informed consent

What Does an Investment Advisor Do?

Investment Advisors are meant to serve as thought partners to their clients.

Sample Scope of Services:

- Reviews investment policy
- Conducts cash flow analysis
- Develops long-term investment strategy
- Develops short-term investment strategies
- Proactively manages portfolio
- Provides monthly and quarterly reports
- Serves as general resource

Typical Portfolio Management Responsibilities



This assumes a discretionary relationship

- Continually review portfolio holdings for opportunities to add value
 - Strategically lengthen and shorten portfolio's duration
 - Execute sector swaps
 - Employ yield curve placements
- Structure the portfolio to perform well in changing market conditions
- Continually monitor credit-worthiness of securities

Developing a Strategy

- Conduct statistical study of agency's historical portfolio balances
- Determine liquidity needs and balance available for longer-term investments
- Develop a strategy that considers the performance objectives of the portfolio:
 - Interest earnings and/or
 - Growth of portfolio value
- Determine tolerance for market value fluctuations
- Discuss industry-standard performance benchmarks

Overview of Broker/Dealers

B/D Roles in the Capital Markets

- Facilitate issuance of debt and equity to raise money for banks, corporations, public entities, and special purpose vehicles
- Active in the secondary markets to provide liquidity and orderly market flow
- Primary dealers: Banks and brokerage firms (currently 24) authorized as trading counterparties of the New York Fed
- Regional or Secondary dealers: all other authorized by regulators

What is the Role of a Broker?

- Acts as Agent: Buys securities from sellers to resell to buyers; does not maintain firm inventory
- Compensation: Earns the difference between the buy price and the sell price, commonly referred to as commission

What is the Role of a Dealer?

- Underwrites securities
- Commits capital to “take a position” in the market
- Owns securities; buys for, and sells from, “house” inventory; acts as principal, may also act as agent
- Compensation: The difference between the buy price and the sell price, aka “spread,” or fees paid by the issuer when underwriting new issues; can also earn a “commission”
- Many firms operate as both; aka, broker-dealers

Standard of Care – Buyer Beware

- FINRA Rule 2111
 - Recommendations made on a reasonable basis
 - www.finra.org/rules-guidance/rulebooks/finra-rules/2111
- Institutional Exemption
 - Institutional Accounts Affirm
 - Capable of Evaluating Investments
 - Will Exercise Independent Judgement
- Best Practice - Delivery versus Payment
 - Third Party Custodian Recommended
 - Custodian Banks Held to Fiduciary Standard

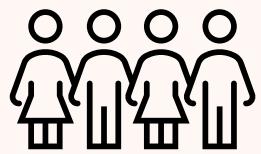
Services Often Provided by Broker/Dealers

- Firm research, trading desk access, and market commentaries
- Market color and context when assessing investment options
- Access to street inventories to expand the universe of available options

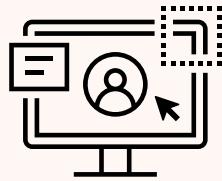
Discussion

How do you decide?

Assess your existing resources.



What kind of finance staff do you have?



What market tools and access do you have?



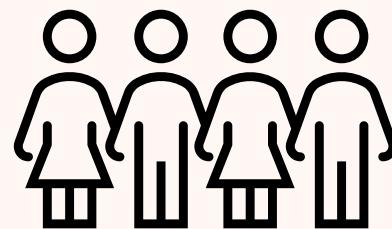
How much time and capacity can you spend on portfolio decisions?



What is the size and complexity of your portfolio?

Staff

- What kind of finance staff do you have?



CONSIDER INVESTMENT ADVISOR

Understaffed

Less Expertise

Staffed

More Expertise

CONSIDER BROKER/DEALER

Tools and Resources

- What market tools and access do you have, or can you reasonably acquire?



Consider the cost of
systems and services

CONSIDER INVESTMENT ADVISOR

Google

Excel

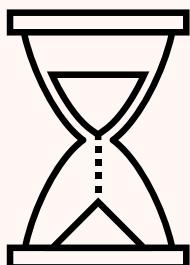
Independent
Market Access

Investment
Accounting System

CONSIDER BROKER/DEALER

Time and Capacity

- How much time and capacity can you spend on portfolio decisions?



Consider how many hours per week you are able to spend

CONSIDER INVESTMENT ADVISOR

Wearing 12 hats

Unable to add staff

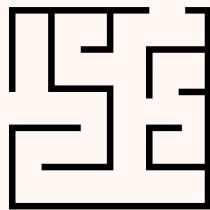
Dedicated investment officer

Ample time to assess options

CONSIDER BROKER/DEALER

Size and Complexity

- What is the size and complexity of your portfolio?



Investment options
and trading volume
impacts portfolio
management costs

CONSIDER INVESTMENT ADVISOR

More compliance and
reporting requirements

Diversified among sectors

Less compliance and
reporting requirements

Limited among sectors

CONSIDER BROKER/DEALER

What To Look For in an Investment Advisor

- Reputation
- Experience managing funds for local governments
- Investment philosophy/approach
- Years of experience of the firm and its investment professionals
- Amount of assets under management for public agencies
- Flexibility to meet your specific needs
- Performance

What To Look For When Selecting Broker/Dealers

- Financial Statement Review
- Capital Adequacy Standards
- History of SEC Complaints or Violations (<http://brokercheck.finra.org>)
- State Registration
- Representative's Qualifications
- Reputation/References
- Familiarity with investment code
- Involvement in state and local government associations
- Ability and willingness to bid and offer securities across asset classes
- Ability and willingness to become familiar with your investment policy

Takeaways

- Customize a program that works for you
- Seek out service providers that meet your specific needs
- **No one size fits all!**

QUESTIONS?



SUSAN MUNSON
Managing Director
Academy Securities, Inc.



MONIQUE SPYKE
Managing Director
PFM Asset Management



HUBIE WHITE, CFA, CTP
Chief Investment Officer
City & County of San Francisco



FUNDAMENTALS OF PUBLIC FUNDS INVESTING

JANUARY 28–29, 2026 | COSTA MESA, CALIFORNIA