

INTERMEDIATE PUBLIC FUNDS INVESTING



WEBINAR 5 | INVESTMENT POLICY ANALYSIS

Bill Blackwill | Managing Director | Stifel, Nicolaus & Co.

Tara Dunn | Technical Assistance Manager | CDIAC

John Johnson | Chief Deputy Treasurer | County of San Bernardino

Michael Solorza | Director of Finance | City of Montebello

February 8, 2022





CMTA Investment Policy Certification Program

*“Improving the quality of policies throughout
the State of California”*

CMTA Certification Program OVERVIEW

- CMTA's Investment Policy Certification Program basics:
- *Provides professional guidance and assistance in developing and/or improving investment policies that meet industry best practices*
 - Fee: \$175 for CMTA members; \$270 for non-CMTA members
- Policies not receiving a score of 85 or above can re-submit for no additional charge if done within 90 days of notification.
- Online application: CMTA.ORG: "Certifications"

CMTA Certification Program: TIPS

- Tips for those submitting:
 - Use the sample policy at CMTA.ORG
 - Scoring matrix used by evaluators included with sample policy
- ...And pitfalls to avoid:
 - Authorized and Suitable Investments
 - Use a chart or table for easy reference
 - Reporting
 - Government Code conflicting
 - Sample policy provides clarification

POLLING QUESTION

To earn CPE credits, participants must participate in at least three of the polling questions.



County of San Bernardino's Experience

Big Mistakes to Avoid

- 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.)
- Failing to have language in your IPS that allows you to restrict large withdrawals that could negatively impact portfolio liquidity

Language on Losses

San Bernardino County Investment Policy

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, *continued*

San Bernardino County Investment Policy

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, *continued*

San Bernardino County Investment Policy

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 Losses, *continued*

San Bernardino County Investment Policy

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).*

29.0 CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY INTO THE TREASURY POOL:

The County Treasurer is not soliciting nor accepting any new agency's voluntary entry into the Treasury Pool.

Investment Policy Statement (IPS) and Rated Pools

- 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.
- Make sure all references to rating agencies in your IPS are correct.

Conclusions

- Recognize the importance of an Investment Policy
- Practice safety, liquidity and return on investments
- Demonstrate best practices in your policy creation
- Include suggested sections
- Customize policy to meet your specific needs
- Review and certify your Investment Policy
- Inspect and Update your Investment Policy periodically

POLLING QUESTION

To earn CPE credits, participants must participate in at least three of the polling questions.



Environmental, Social and Governance (ESG) Criteria

Defining ESG

- Existing Policy
- Credit, financial, political risk



Analysis and Screening Strategies

- Existing Policy
- Credit, financial, political risk

Pool of Investments



INVESTMENT TYPE	MAXIMUM MATURITY ¹	MAXIMUM SPECIFIED % OF PORTFOLIO ²	MINIMUM QUALITY REQUIREMENTS	GOV'T 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% ⁴	None	53601(g)
Commercial Paper—Non-Pooled Funds ⁵ (under \$100,000,000 of investments)	270 days or less	25% of the agency's money ⁶	Highest letter and number rating by an NRSRO ⁷	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds	270 days	40% of the	Highest letter and number rating by an	53601(h)(2)(c)

Remaining Allowable Investments



Repurchase Agreements	1 year	None	None	53601(i)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ⁸	20% of the base value of the portfolio	None ⁹	53601(i)
Medium-Term Notes ⁸	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%	Multiple ¹⁰	53601(l) and 53601.6(b)
Collateralized Bank Deposits ⁸	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ⁸	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ¹	N/A	None	None	16340
Supranational Obligations ¹	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

Convergence & Implementation

Complexity

- Process
- Analysis
- Alternatives
- Available Data

Informal Practice

- Stakeholder Sentiment
- Board Direction
- Developing Expertise

Flexibility

- Adapt to Market Changes
- Improved ESG Metrics

Narrow Focus Criteria

- Investment Type
- Investment Sector
- Exceptions

Examples of ESG

City of Oakland

10.0 SOCIAL RESPONSIBILITY

When possible, it is the City's policy to invest in companies that promote the use and production of renewable energy resources and any other socially responsible investments, subject to the prudent investment standard.

9.0 APPLICABLE ORDINANCES

9.1 Nuclear Free Zone Ordinance

Under the guidelines of a voter-approved Measure, the Oakland City Council approved Ordinance No. 11062 C.M.S effective December 16, 1988, which restricts the City's investments in U.S Government Treasuries. The Treasurer shall make every attempt to invest in any available short-term option that provides approximately the same level of security and return as Treasuries. In the event that no reasonable alternatives exist, or to the extent that the City may experience financial hardship as a result of investment in these alternatives, the City Council may adopt a waiver for a period not to exceed 60 days, as authorized by the Ordinance, allowing the City to invest in U.S securities.

9.2 Linked Banking Ordinance

Pursuant to Ordinance No. 12066 C.M.S adopted by Council on July 14, 1998, the City has established a Linked Banking Service Program. This reference applies to depositories for both the City of Oakland and the Port of Oakland banking needs. Depositories are defined within the Ordinance as "all banking services utilized by the City including the Port of Oakland operating fund, with the exception of investments made through investment banks and broker/dealers." Depositories providing services to the City and the Port of Oakland must provide to the City, annually, the information enumerated under Section 3 of the Ordinance. On July 27 2017, City Council adopted Ordinance No. 13445 C.M.S that Amended Ordinance No. 12606 C.M.S.

9.3 Tobacco Divestiture Resolution

On February 17, 1998, Council adopted Resolution No. 74074 C.M.S., which prohibits investment in businesses deriving greater than fifteen percent of their revenues from tobacco products. Treasury Bureau maintains a list of firms excluded from permitted investments due to the tobacco divestiture requirements.

9.4 Fossil Fuel Divestiture Resolution

On June 17, 2014, Council adopted Resolution No. 85053 C.M.S. which prohibits the Investment or ownership stake in any companies that extract, produce, refine, burn or distribute fossil fuels. Treasury Bureau is in full compliance with this Resolution

9.5 Firearm or Gun Manufacturer Divestiture Resolution

On March 5, 2013, Council adopted Resolution No. 84242 C.M.S which prohibits investment or ownership stake in any manufacturer of firearms or ammunition. Treasury Bureau does not have any direct investment exposure to firearms or ammunition manufacturer.

9.6 Sanctuary City Investment Ordinance

On June 5, 2019, Council adopted Ordinance No. 13540 C.M.S which prohibits the City from investing in companies that contract with the United States Immigration and Customs Enforcement, Customs and Border Protection, or the Department of Health and Human Services of Refugee Resettlement to provide services or goods for data collection or immigration detention services.

Examples of ESG

City of Santa Monica

17. SOCIALLY RESPONSIBLE INVESTING

RESTRICTIONS – The direct investment of City funds are restricted as follows:

- a. Investments are to be made in entities that support clean and healthy environment, including following safe and environmentally sound practices.
- b. No investments will be made in fossil fuel companies as defined by the organization 350.org or in banking institutions that provide financing to said companies.
- c. No investments are to be made in tobacco or tobacco-related products.
- d. No investments are to be made to support the production of weapons, military systems, or nuclear power.
- e. Investments are to be made in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation.
- f. Investments are to be made in entities that promote community economic development.

Funds invested with trustee and/or outside investment managers such as the Cemetery and Mausoleum Perpetual Care Funds will comply with this section of the policy.

Examples of ESG

City of Palo Alto

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITIES

In addition to and subordinate to the Safety, Liquidity, and Yield investment objectives , investments that support sound environmental, social and governance (ESG) objectives are also considered. While the City's portfolio is not classified as an ESG portfolio, investments in entities that support community well-being through practices that emphasize **safe and environmentally sound objectives**; **fair labor practices**; and **equality of rights** regardless of sex, race, age, disability, or sexual orientation, **is encouraged**. Direct investments in entities that manufacture **tobacco products, firearms**, and engage in **direct production or drilling of fossil fuels** is discouraged.

This section applies to new investments (after November 5, 2018) only and does not require divestment of existing investments. Investments in Certificates of Deposit (CDs) and Negotiable Certificates of Deposit are exempt from the ESG investing objective.

POLLING QUESTION

To earn CPE credits, participants must participate in at least three of the polling questions.



GROUP DISCUSSION



THANK YOU

We look forward to your participation in the next webinar in this series:

Statutory and Federal Regulatory Changes & Current Hot Topics

