

2020
INVESTMENT POLICY

THE CITY OF SAN MATEO
AND CITY OF SAN MATEO, ACTING AS SUCCESSOR AGENCY TO THE REDEVELOPMENT
AGENCY OF THE CITY OF SAN MATEO

I. SCOPE AND AUTHORITY

In accordance with the Charter of the City of San Mateo, (the “City”), the Finance Director/City Treasurer is responsible for investing the unexpended cash of the City and the Successor Agency to the Redevelopment Agency of the City of San Mateo (the “Successor Agency”) in the City Treasury. The authority governing investments for local agencies is set forth in the California Government Code Sections 53600 et. seq.

This Investment Policy (the “Policy”) applies to all the investment activities of the City and the Successor Agency. The Policy will also apply to all other funds under the Finance Director/City Treasurer’s span of control unless specifically exempted by statute or ordinance. All the invested financial assets are accounted for in the City’s fund accounting system which includes: General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Debt Service Funds, Internal Service Funds, and Trust and Agency Funds.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance. Investment income shall be distributed to the individual funds not less than annually.

II. OBJECTIVES

City and Successor Agency funds shall be invested in accordance with all applicable City policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

A. Safety of principal

The City shall seek to preserve principal by mitigating credit risk and market risk, as defined below:

1. “Credit Risk” - the risk of loss due to failure of the issuer of a security or the diminished quality of its rating.

Credit risk shall be mitigated by diversifying the investment portfolio.

2. “Market Risk” - the risk of market value fluctuations due to overall changes in the general level of interest rates.

Market risk shall be mitigated by limiting the average maturity of the City’s portfolio to three years and the maximum maturity of any one security in the portfolio to five years. The portfolio shall be structured with an adequate mix of highly liquid securities and those with maturities scheduled to meet major cash outflow requirements.

B. Liquidity Standard

To ensure sufficient liquidity in order to meet anticipated cash flow needs, a minimum of 25% of the market value of the investment portfolio shall be invested in securities or deposits that have a remaining maturity of less than six (6) months.

C. Return on investment

The City’s investment portfolio shall be structured to attain a market-average rate of return through economic cycles.

III. DELEGATION OF AUTHORITY

In accordance with the City Charter, the City Manager delegates his/her authority over investment activities to the Finance Director/City Treasurer or his/her designee. Staff members of the Finance Department’s Treasury Division may be assigned to perform the day-to-day treasury activities related to the investment of City funds. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City may delegate its investment authority to an investment adviser registered under the Investment Advisers Act of 1940, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City’s financial resources. The adviser shall follow this Policy and such other written instructions as provided. Such delegation is subject to City review and overriding discretion which will be exercised as needed.

IV. INTERNAL CONTROLS

The Finance Director/City Treasurer has established a system of internal controls to ensure compliance with the investment policies and procedures of the City, the Successor Agency, and the California Government Code. Such controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees of the City. Investment decisions are made by the Finance Director/City Treasurer or his/her designee and executed by staff of the Finance Department’s Treasury Division. All wire transfers initiated by Finance Department staff members must be approved and transmitted by the Finance Director/City Treasurer or his/her designee. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by senior finance staff on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the City’s cash and investments. The Finance Director/City Treasurer shall review and assure compliance with investment processes and procedures.

V. ETHICS AND CONFLICT OF INTEREST

In accordance with California Government Code Sections 1090 et seq. and 87100 et seq., officers and employees of the City will refrain from any activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions, and all investment personnel shall subordinate their personal investment transactions to those of the City. In addition, City Council members, the City Manager, and Finance Director/City Treasurer, shall comply with the reporting requirements of California Government Code Section 87203 and regulations of the Fair Political Practices Commission and file a Statement of Economic Interest annually.

VI. PRUDENT INVESTOR STANDARD

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard, which states that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The City recognizes that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well-diversified investment portfolio, occasional measured losses may occur due to economic, bond market, or individual security credit events. These occasional declines in value must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The Finance Director/City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of this Policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

VII. AUTHORIZED INVESTMENTS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609, and 53630-53686. Any amendments to these code sections will be assumed to be part of this Policy immediately upon being enacted. However, in the event that such amendments conflict with this Policy and past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. In such instances, after consultation with the City's attorney, the Finance Director/ City Treasurer will present a recommended course of action to the City Council for approval. The authorized investments are described below.

- A. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation on the percentage of the portfolio that can be invested in this category.
- B. Agency Mortgage-backed securities, backed by residential, multi-family or commercial mortgages, with a final maturity not exceeding five years from the date of trade settlement,

that are issued of fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMO's) and REMICs. The aggregate investment in these securities shall not exceed 20% of the City's total portfolio and shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five year or less.

- C. Federal agency or United States government-sponsored enterprise ("GSE") obligations, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. The aggregate investment in federal agency securities/GSEs shall not exceed 70% of the City's total portfolio, and the securities of any one federal agency/GSE shall not exceed 40% of the City's total portfolio.
- D. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States and rated at least "A" or the equivalent by an NRSRO. The aggregate investment in medium-term notes shall not exceed 30% of the City's total portfolio, and no more than 5% of the City's total portfolio shall be invested in the medium-term notes of any one issuer.
- E. Non-negotiable Certificates of Deposit with a maturity not exceeding three years from the date of trade settlement, in state- or nationally-chartered banks or savings banks that are insured by the FDIC, subject to the limitations of California Government Code Section 53638. Amounts in excess of FDIC insurance coverage shall be secured in accordance with California Government Code Section 53652. No more than 5% of the City's total portfolio shall be invested in the deposits of any one bank. The aggregate investment in non-negotiable certificates of deposit shall not exceed 30% of the City's total portfolio.
- F. "Prime" commercial paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by an NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:
 - 1) The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least "A" or the equivalent by an NRSRO.
 - 2) The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, overcollateralization, letters of credit or surety bond; and (3) have commercial paper that is rated at least "A-1" or the equivalent by an NRSRO.

The City may purchase no more than 10% of the outstanding commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 15% of the City's total portfolio. Further, no more than 5% of the City's total portfolio shall be invested in the commercial paper of any one issuer.

- G. Eligible Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, rated at least "A-1" or the equivalent by an NRSRO, drawn on or accepted by a commercial bank, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least "A" or the equivalent by an NRSRO at the time of purchase. No more than

5% of the City's total portfolio shall be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 10% of the City's total portfolio.

- H. Repurchase Agreements with a final termination date not exceeding 90 days collateralized by obligations of the U.S. Treasury, federal agencies and/or government-sponsored enterprises (described in sections VII.A and VII.C above). For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. All collateral must be delivered to the City's custodian bank by book entry, physical delivery, or by a third-party custodial agreement. The market value of the collateral securities shall be marked-to-the-market at least quarterly, and the value of the underlying collateral must be brought back up to 102 percent no later than the next business day. Market value must be calculated each time there is a substitution of collateral. No more than 10% of the City's total portfolio shall be invested in repurchase agreements with any one counterparty, and the aggregate investment in repurchase agreements shall not exceed 10% of the City's total portfolio.

The City or its custodian shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The City may enter into Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York. Approved Repurchase Agreement counterparties shall have a short-term credit rating of at least "A-1", or the equivalent, and a long-term credit rating of at least "A", or the equivalent, by a NRSRO. Repurchase agreement counterparties shall execute a City-approved Master Repurchase Agreement with the City. The Finance Director/City Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of broker/dealers who have executed this agreement.

Reverse repurchase agreements will not be permitted.

- I. LOCAL AGENCY INVESTMENT FUND. The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer (per Government Code Section 16429.1) for the benefit of local agencies up to the maximum amount permitted by LAIF or 65% of the market value of the City's total portfolio, whichever is less.
- J. SAN MATEO COUNTY POOL. The City may invest in the San Mateo County Pool established by the San Mateo County Treasurer for the benefit of local agencies (as established in California Code Section 53684). No more than 30% of the market value of the City's total portfolio may be invested in this category.
- K. CALIFORNIA ASSET MANAGEMENT PROGRAM. The City may invest in the California Asset Management Program (CAMP) a California Joint Powers Authority established to provide California public agencies with professional investment services (California Code Section 53601 (p)). No more than 20% of the market value of the City's total portfolio may be invested in this category.
- M. Shares of beneficial interest issued by a diversified management company that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). Provided that the money market funds (1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of \$1.00; (3) have a rating of "AAA" or the equivalent by at least two NRSROs or have retained an investment adviser registered or

exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). No more than 10% of the City's total portfolio shall be invested in any one issuer and the aggregate investment in money market funds shall not exceed 20% of the City's total portfolio.

- N. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or any local agency or by a department, board, agency, or authority of the state or any local agency.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Securities in this section must have a short-term rating of "A-1" or the equivalent by an NRSRO or a long-term rating of "A" or the equivalent by an NRSRO. No more than 5% of the City's total portfolio shall be invested in any one municipal issuer, and the aggregate investment in municipal bonds shall not exceed 20% of the City's total portfolio.

- O. Negotiable certificates of deposit or deposit notes issued by a nationally- or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally-licensed or by a state-licensed branch of a foreign bank. Eligible negotiable certificates of deposit shall be rated "A" for long-term, "A-1" for short-term, their equivalent, or higher by an NRSRO. No more than 5% of the City's total portfolio shall be invested in the negotiable certificates of deposit of any one issuer, and the aggregate investment in negotiable certificates of deposit shall not exceed 30% of the City's total portfolio.
- P. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 10 percent of the agency's moneys that may be invested pursuant to this section.
- Q. A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. No more than 5% of the agency's total portfolio shall be invested in any one issuer. Purchase of securities authorized by this subdivision shall not exceed 10 percent of the agency's total portfolio.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be approved in advance by resolution of the City Council.

NOTE 1: References throughout this document to "the City's total portfolio" will be the market value of the portfolio at the time the specific security is purchased.

NOTE 2: Should the rating of any authorized investment subsequent to purchase fall below the requirement, the Finance Director/City Treasurer, or his/her designee, shall evaluate the downgrade on a case-by-case basis and determine whether the security should be held or sold. The Finance Director/City Treasurer shall apply the general objectives of safety, liquidity, and return on investment in making such determination. That determination shall be documented in the quarterly report.

VIII. INVESTMENT DIVERSIFICATION

The City shall diversify its investments within the parameters of this Policy to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets, and the City's anticipated cash flow needs. To meet its diversification objectives, no more than 5% of the City's total portfolio may be invested in any one single issuer across the following sectors identified in Section VII: medium-term notes, non-negotiable certificates of deposit, prime commercial paper, eligible banker's acceptances, state or municipal bonds, negotiable certificates of deposit, and asset-backed and non-agency mortgage securities. This means the aggregate investment, for example, in prime commercial paper and medium-term notes from a single issuer may not exceed a total of 5% of the City's investment portfolio.

IX. SELECTION OF BROKER/DEALERS

The Finance Director/City Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to conduct transactions only with those authorized firms. To be eligible, a firm must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code, and:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or
2. Report voluntarily to the Federal Reserve Bank of New York, or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information form. The Finance Director/City Treasurer shall maintain a list of the broker/dealers that have been approved by the City, along with each firm's most recent Broker/Dealer Information Request form.

If the City has not engaged the support services of an outside investment advisor while in the process of executing a particular transaction, the authorized broker/dealer(s) shall provide certification of having received and reviewed this Policy. For transactions initiated through an investment advisor, the investment advisor may use their own list of approved broker/dealers and financial institutions, which it will maintain and review periodically.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item F of the Authorized Investments section of this Policy.

X. COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction, and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the Finance Director/City Treasurer will document quotations for comparable or alternative securities.

XI. SELECTION OF BANKS

The Finance Director/City Treasurer shall maintain a list of banks approved to provide depository and other banking services for the City. To be eligible for authorization, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5, shall be a member of the FDIC, and shall secure all deposits exceeding FDIC insurance coverage in accordance with California Government Code Section 53652.

XII. SAFEKEEPING AND CUSTODY

The Finance Director/City Treasurer shall select a bank to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A City-approved Safekeeping Agreement shall be executed with the custodian bank prior to utilizing that bank's safekeeping services. The custodian bank will be selected on the basis of its ability to provide satisfactory safekeeping services and the competitive pricing of them.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery-versus-payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking, and commercial practices.

All investment securities will be delivered by either book entry or physical delivery and will be held by the City's custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

XIII. PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. An appropriate benchmark or benchmarks will be established against which portfolio performance shall be compared on a regular basis. When comparing the performance of the City's portfolio, its rate of return will be computed net of all fees and expenses.

XIV. MONTHLY REPORTING

Monthly, the Finance Director/City Treasurer shall submit to the City Council a report of the investment earnings and performance results of the City's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of purchase and maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments and programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. A statement of compliance with this Policy or an explanation for non-compliance; and
5. A statement of the City's ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.
6. A statement of transactions made during the month.

XV. INVESTMENT POLICY ADOPTION

This Investment Policy shall be adopted by resolution of the City Council. The Policy shall be reviewed annually by the Investment Advisory Committee and any modifications made thereto must be approved by the City Council.