



Investment Policy Update

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Background

- The City of Santa Rosa Statement of Investment Policy No. 000-26 was adopted in January 1985. It was last updated by Council on April 9, 2013.
- In May 2023, PFM Asset Management met with the Finance Department to discuss proposed changes to update and enhance the Investment Policy.

Background

- Stakeholders in the Parks & Recreation Department, Water Department and the Housing Authority have been consulted and reviewed the proposed changes.
- While the current policy is comprehensive and in compliance with current California Government Code regulating the investments of public funds, the consensus and recommendation of staff is to move forward with all updates to the Investment Policy proposed by PFMAM.

Investment Universe

		1 Day	180 Days	270 Days	1 Year	5 Years	Over 5 Years	
Conventional Fixed Income	U.S. Treasuries	Permitted					Requires Approval	
	Federal Agencies	Permitted					Requires Approval	
	Municipal Securities	Permitted					Requires Approval	
	Negotiable Certificates of Deposit	Permitted					Requires Approval	
	Commercial Paper	Permitted			Prohibited			
	Bankers' Acceptances	Permitted		Prohibited				
	Medium-Term Corporate Notes	Permitted					Prohibited	
	Asset-Backed Securities (ABS)	Permitted					Prohibited	
	Supranationals	Permitted					Prohibited	
	Public Bank Debt	Permitted					Requires Approval	
	Repurchase Agreements	Permitted				Prohibited		
Money Market Funds/Bond Mutual Funds	Permitted	Prohibited						
Local Government Investment Pools	Permitted	Prohibited						
Broader Fixed Income	Foreign Sovereign	Prohibited						
	Fixed-Income ETFs	Prohibited						
	High-Yield Bonds	Prohibited						
	Private Placements	Prohibited						
	Convertibles	Prohibited						
	Non-U.S. Dollar Investment Grade	Prohibited						
	Emerging Markets Debt	Prohibited						
	Bank Loans	Prohibited						
Equities	Domestic Equities (Large-, Mid-, Small Cap)	Prohibited						
	International Equities (Large-, Mid-, Small Cap)	Prohibited						
	Emerging Markets	Prohibited						
	Preferred Stock	Prohibited						
	Equity Mutual Funds and ETFs	Prohibited						
	Commodities	Prohibited						
	Real Estate	Prohibited						
	Hedge Funds	Prohibited						
	Private Equity	Prohibited						
	Venture Capital	Prohibited						
	Tangible Assets	Prohibited						
	Complex Derivatives, Futures, and Options	Prohibited						

Source: California Government Code
Section 53601

Expand City's List of Authorized Investments

	California Code Allowed Investments	City's 2013 Policy	2023 PFMAM Recommendations
Overnight	Money Market Funds	Permitted	-
	Local Government Investment Pools	Permitted	-
Government	U.S. Treasuries	Permitted	-
	Federal Agencies	Permitted	-
	Municipal Obligations	Permitted; "AA" minimum rating requirement	"A" minimum rating requirement
	Supranational Obligations	Not permitted	5 years, "AA" rated, 30% of portfolio, 10% per issuer
Credit	Commercial Paper	Permitted; 25% of portfolio	40% of portfolio
	Negotiable Certificates of Deposit	Permitted	-
	Asset-Backed Securities	Not permitted	5 years, "AAA" rated, 20% of portfolio, 5% per issuer
	Medium Term Notes	Permitted	-

Proposed Changes

- **Section VI. Introduction paragraphs:**
 - Modify to reflect new language in the California Government Code effective January 1, 2023, stating that a security purchased shall not have a forward settlement date exceeding 45 days from the time the investment is purchased.

Proposed Changes

- **Section VI.3 California Municipal Investments and Section VI.4 State Municipal Investments:**
 - Added language to lower the minimum credit rating on municipal obligations from “AA” to “A” rating. Code places no minimum rating requirement on municipal obligations.

Proposed Changes

- **Section VI.6 Commercial Paper:**
 - In 2021, Code was modified to allow public agencies with more than \$100 million of assets to invest up to 40% in commercial paper. The previous limit was 25% for all agencies, other than a county or a city and county which already had a 40% maximum. Language has been added to adopt this Code change to allow for additional opportunities should it fit the City's investment strategy.

Proposed Changes

- **Sections VI.15 Supranationals:**
 - Added language to allow for investment in select supranational organizations, with a maximum maturity of five years, as allowed by Code Section 53601(q). The language added to the Policy matches Code language, allowing for purchases of bonds issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a minimum rating of “AA” and a maximum sector allocation of 30%. While Code does not have an issuer limit, added language to the Policy to include a 10% issuer limit.

Proposed Changes

- **Section VI.16 Asset-Backed Securities:**
 - Added language to allow for investment in asset-backed securities, with a maximum maturity of five years, as allowed by Code Section 53601(o). The language added to the Policy matches the Code language, except added a minimum rating requirement of “AAA,” while Code’s minimum rating requirement is “AA,” and added a per issuer limit of 5%, while Code has no issuer limit. The sector limit suggested is 20%, matching the maximum allowed by Code.

Proposed Changes

- **Section VIII Introductory Paragraphs - Maximum Maturities:**
 - Effective January 1, 2023 Code language was updated to include an investment's term or remaining maturity shall be measured from the settlement date to final maturity. Added language to match the City's Policy.

Proposed Changes

- **Section VIII Introductory Paragraphs - Socially Responsible Investing (SRI):**
 - Added language from the City's resolution prohibiting investment in the fossil fuel industry. Also added language describing the methodology used to determine which issuers to exclude based on the City's parameters. The methodology described in the Policy is the methodology that is currently used by the City's investment manager, PFM Asset Management.

Proposed Changes

- **Section IX Collateralization:** added a section on collateralization to describe which security types require collateral and the details of the requirement, as required by Code.
- **Section XII Investment Policy Adoption:** added a section describing the Policy review procedure.

Recommendation

The Finance Department recommends approving, by resolution, the proposed changes to the Investment Policy that have been made to the Authorized and Suitable Investment and the Investment Parameters sections as well as adding a Collateralization and Investment Policy Adoption section.

Questions?