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I. PURPOSE

The purpose of this document is to specify the policies and procedures that support a prudent and systematic program for the investment of surplus funds.

II. REFERENCE

1. City of Santa Rosa Resolutions No. 8361 & 17133
2. State of California Government Code Section 53601 et sec

III. SCOPE

This investment policy applies to all funds managed directly by the City of Santa Rosa, excluding bond proceeds and pension obligation funds. The bond proceeds and pension funds are governed by the terms of their covenants. The City maintains various portfolios including the City portfolio and special district portfolios. Each portfolio is managed separately but will be referred to collectively as the “portfolio” for purposes of this policy. All funds are accounted for in the City’s Annual Comprehensive Financial Report.”

IV. OBJECTIVES

The objectives, in priority order, of the City of Santa Rosa’s investment activities shall be:

Safety

Safety of principal is the foremost objective of the investment program. Investments of the City will be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will endeavor to mitigate credit and market risk.

Liquidity

The City’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. This will be achieved through maturity diversification and purchases of securities with an established secondary market.

Yield

The City’s investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints, liquidity needs, and cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

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V. STANDARDS OF CARE

Prudence

The City of Santa Rosa adheres to the guidance provided by the “prudent investor” standard (CA 53600.3) to insure 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

This standard of prudence is to be used by all investment staff and will be applied in the context of managing an overall portfolio.

Ethics and Conflicts of Interest

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

Delegation of Authority

The authority to invest City funds rests with the Chief Financial Officer herein referred to as CFO, and his designated staff, herein referred to as investment staff. The City will establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures will include explicit delegation of authority to persons responsible for investment transactions and shall be on file in the City. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established. The CFO shall be responsible for all transactions undertaken and will establish a system of controls to regulate the activities of subordinate officials.

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The City may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

Investment Management Committee

An investment management committee shall be appointed by the City Manager for the purpose of determining investment strategies and to review performance. This committee will include a staff member representing the Board of Public Utilities and two staff persons as members at large. The committee will make recommendations to investment staff regarding portfolio diversification, economic outlook and overall investment risk management.

VI. AUTHORIZED AND SUITABLE INVESTMENTS

The CFO is authorized to invest in those investment vehicles allowed by Sections 53601, 53635 and 16429.1 of the California Government Code that are specifically addressed below. The City recognizes that investment risk can result from issuer defaults, market price changes or various technical impediments leading to diminished liquidity or loss of capital. Portfolio risk management and diversification are employed as a way to minimize the risks inherent in investing.

Credit criteria listed in this section refer to the credit of the issuing organization at the time the security is purchased. If a credit rating falls below the criteria stated, the City should be notified. In the event that an issuer is down-graded to below “A,” staff will prepare an analysis of the exposure to the City and will make a recommendation regarding possible sale.

Any percentage limitation for a particular category of investment in this section is applicable only on the date of purchase of the investment.

A security purchased in accordance with this Policy shall not have a forward settlement date exceeding 45 days from the time of investment.

1. *U.S. Treasury Obligations.* 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.
2. *Government Agency Issues.* Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

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- (a) Any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Federal Agency mortgage backed securities are securities backed by high quality residential mortgages and guaranteed to principal and interest by the issuing agency. A pass through is a simple type of mortgage-backed security where payments on the underlying individual mortgages flow directly to the owner of the security. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a nationally recognized statistical rating organization (NRSRO). Purchase of securities authorized by this subdivision may not exceed 20% of the City’s portfolio.
- 3. *California Municipal Investments.* 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, provided that the obligations are rated in a rating category of “A” or its equivalent or better by an NRSRO. No more than 10% of the portfolio may be invested with a single issuer.
- 4. *State Municipal Investments.* 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, provided that the obligations are rated in a rating category of “A” or its equivalent or better by an NRSRO. No more than 10% of the portfolio may be invested with a single issuer.
- 5. *Corporate Notes.* Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category “A” or its equivalent or better by a NRSRO. Purchase of medium-term notes may not exceed 30% of the City’s investment portfolio. No more than 10 % of the City’s investment portfolio may be invested in the medium-term notes and the commercial paper of any one issuer.
- 6. *Commercial paper.* Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):
 - (a) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million

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dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.

(b) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated “A-1” or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 40% of the City’s portfolio nor 270 days maturity. Additionally, no more than 10% of the City’s funds may be invested in the commercial paper or medium-term notes of any single issuer.

7. *Negotiable Certificates of Deposit.* Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank. Eligible negotiable certificates of deposit shall be rated in category “A” or its equivalent or better by a NRSRO. No more than 30% of the City’s portfolio may be invested in negotiable certificates of deposit and no more than 10% may be invested with a single issuer.

8. *Time Deposits/ Time Certificates of Deposit (CDs).* Time Deposits/Time Certificates of Deposit (CDs) placed with commercial banks and savings and loans. Time certificates of deposit shall meet the conditions in either paragraph (i) or paragraph (ii) below:

i. Time certificates of deposit shall meet the requirements for deposit under Government Code Section 53635 et. seq. The CFO, for deposits up to \$250,000, may waive collateral requirements if the institution insures its deposits with the Federal Deposit Insurance Corporation (FDIC). The City shall have a signed agreement with the depository per California Government Code (Hereafter Code) 53649.

ii. Fully insured time certificates of deposit placed through a deposit placement service shall meet the requirements under Code Section 53601.8.

The maximum maturity shall be limited to one year.

9. *Bankers’ Acceptances,* otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances may not exceed 180 days of maturity or 40% of the City’s portfolio. No more than 10% of the City’s portfolio may be invested in a single issuer.

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10. *Repurchase agreements.* Repurchase agreements are agreements between the City and seller for the purchase of government securities to be resold at a specific date and for a specific amount. The seller, or counterparty, will deliver the underlying securities to the City by book entry, physical delivery, or by third-party custodial agreement.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City’s custodian bank by book entry, physical delivery, or by a third party custodial agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value, 102 percent of the funds borrowed against those securities. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a weekly basis. Market value must be calculated each time there is a substitution of collateral.

The City will have specific written agreements with each firm with which it enters into Repurchase Agreements.

Reverse repurchase agreements will not be allowed.

11. *Mutual Funds.* Shares of beneficial interest issued by diversified management companies (DMCs) that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive of Section 53601, or subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of Section 53630. Investments in DMCs may not exceed 15% of the City’s portfolio. A maximum of 20% of the City’s portfolio may be invested in mutual funds and money market funds combined. No more than 10% of funds may be invested in a single fund. Eligible funds shall possess the highest rating by not less than two NRSROs.

12. *Money Market Funds.* Shares of beneficial interest issued by diversified management companies 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.). To be eligible for investment pursuant to this subdivision, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations; or (2) retain an investment advisor 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). A maximum of 20% of the City’s portfolio may be invested in money market funds and mutual funds combined.

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13. *Government Pools.* Shares of beneficial interest issued by a joint powers authority (6509.7) that invests in securities authorized by Section 53601 of the California Government Code. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- (a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- (b) The adviser has not less than five years of experience investing in the securities and obligations authorized in California Government Code section subdivisions (a) to (q), inclusive.
- (c) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares shall not exceed 15 % of the City’s surplus money.

14. *State of California's Local Agency Investment Fund (LAIF).* Investment in LAIF may not exceed the investment limitation imposed by LAIF and should be reviewed periodically.

15. *Supranationals.* 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 30% of the City’s portfolio. No more than 10% may be invested with a single issuer.

16. *Asset-Backed Securities.* An 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 “AAA” or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of the City’s portfolio and no more than 5% may be invested with a single issuer.

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VII. INELIGIBLE INVESTMENTS

Any security type or structure not specifically approved by this policy is hereby prohibited; these include, but are not restricted to, the following:

- (a) "Complex" derivative securities such as range notes, dual index notes, inverse floating-rate notes, leveraged or deleveraged floating-rate notes, or any other complex variable-rate or structured note.
- (b) Interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

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City of Santa Rosa Permitted Investments

| Allowable Instruments | City's Maximum Portfolio % | State Code Maximum Portfolio % | City Maximum Maturity ¹ | State Code Maximum Maturity ¹ | City % per Issuer/Fund | State Code % per Issuer/Fund | City Credit Requirements | State Code Credit Requirements ¹ |
|------------------------------------------------|----------------------------|--------------------------------|------------------------------------|------------------------------------------|------------------------|------------------------------|--------------------------|---------------------------------------------|
| U.S Treasury Notes (§53601(b)) | 100% | 100% | 5 years | 5 years | -- | -- | -- | -- |
| Federal Agencies (§53601(f)) | 100% | 100% | 5 years | 5 years | -- | -- | -- | -- |
| Agency Mortgage-Backed Securities (§53601(f)) | 20% | 100% | 5 years | 5 years | -- | -- | "AA" | -- |
| CA Municipal Investments (§53601(a,c,e)) | 100% | 100% | 5 years | 5 years | 10% | -- | "A" | -- |
| State Municipal Investments (§53601(d)) | 100% | 100% | 5 years | 5 years | 10% | -- | "A" | -- |
| Corporate Notes (§53601(k)) | 30% | 30% | 5 years | 5 years | 10% | -- | "A" | "A" |
| Asset-Backed Securities (§53601(o)) | 20% | 20% | 5 years | 5 years | 5% | -- | "AA" | AA" |
| Commercial Paper (§53601(h)) | 40% | 40% | 270 days | 270 days | 10% | 10% | "A-1" or equivalent | "A-1" or equivalent |
| Negotiable Certificates of Deposit (§53601(i)) | 30% | 30% | 5 years | 5 years | 10% | -- | "A" | -- |

¹ Exceptions permitted with the approval of the executive body no less than three months prior to the investment.

² Limits set by State Treasurer's office and periodically change.

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| Allowable Instruments | City's Maximum Portfolio % | State Code Maximum Portfolio % | City Maximum Maturity ¹ | State Code Maximum Maturity ¹ | City % per Issuer/Fund | State Code % per Issuer/Fund | City Credit Requirements | State Code Credit Requirements ¹ |
|-------------------------------------------------------|----------------------------|--------------------------------|------------------------------------|------------------------------------------|------------------------|------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Time Deposits/Time Certificates of Deposit (§53635.8) | 100% | 100% | 365 days | -- | -- | -- | -- | -- |
| Bankers' Acceptances (§53601(g)) | 40% | 40% | 180 days | 180 days | 10% | 30% | -- | -- |
| Repurchase Agreements (§53601(j)) | 20% | 100% | 365 days | 365 days | 10% | 20% | -- | -- |
| Supranationals (§53601(q)) | 30% | 30% | 5 years | 5years | 10% | -- | "AAA" | "AA" |
| Mutual Funds (§53601(l)) | 15% | 20% | -- | -- | 10% | 10% | Highest rating by two NRSROs | Highest rating by two NRSROs |
| Money Market Funds (§53601(l)) | 20% | 20% | -- | -- | -- | -- | Highest rating by two NRSROs, unless advisor has over \$500 million in funds under management | Highest rating by two NRSROs, unless advisor has over \$500 million in funds under management |
| Government Pools (§53601(p)) | 15% | 100% | -- | -- | -- | -- | Investment Advisor Requirements | Investment Advisor Requirements |
| L.A.I.F. (§16429.1) | LAIF limit ² | LAIF limit ² | -- | -- | -- | -- | -- | -- |

¹ Exceptions permitted with the approval of the executive body no less than three months prior to the investment.

² Limits set by State Treasurer's office and periodically change.

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VIII. INVESTMENT PARAMETERS

Diversification. The City’s investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding Local Agency Investment Fund and U.S. Treasury securities)
- Limiting investment in securities that have higher credit risks
- Investing in securities with varying maturities
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LAIF), or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations

Maximum Maturities. To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless stated otherwise in Section VI of this Policy or approval made by the City’s executive body, the maximum maturity of the City’s eligible investments will not exceed five years. For purposes of compliance with this Policy, an investment’s term or remaining maturity shall be measured from the settlement date to final maturity.

Socially Responsible Investing (SRI). 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. The City will not purchase any investments in the fossil fuel industry. The City will apply the exclusionary parameters detailed below to investments authorized and governed by this Policy. The SRI exclusionary parameters will be implemented by utilizing industry and subindustry classifications as defined by Sustainalytics, as well as Sustainalytics Product Involvement evaluations, as applicable.*

| SRI Exclusionary Investment Parameters | |
|-------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Fossil Fuels <i>Based on Sustainalytics industry and subindustry definitions</i> | Industry/Subindustry Exclusions 1) Energy Services 2) Oil & Gas Producers 3) Refiners & Pipelines |

If a previously purchased investment no longer satisfies the SRI Investment Parameters set forth herein, the City will continue to hold that investment unless the City directs its investment advisor to sell that investment.

*Sustainalytics a subsidiary of Morningstar Inc. that rates the sustainability of over 16,000 companies based on their environmental, social, and corporate governance performance.

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Community Banking Program. In an effort to encourage and support local banking institutions, the City will maintain a “Community Banking Program.” The goal of the City’s Community Banking Program is to invest a portion of City funds in qualified community banks. The Guidelines for the program are detailed in the Appendix of this policy.

Sale of Securities. The City does not make investments for the purpose of trading or speculation, but buys with the prevalent intent to hold securities to maturity. The prohibition of speculative investment precludes pursuit of profit through unusual risk or conjectural fluctuations in market prices. However, fluctuations in market rates or changes in credit quality may produce situations where securities may be sold at a nominal loss in order to mitigate further erosion of principal or to reinvest proceeds of sale in securities that will out-perform the original investment.

Authorized Broker/Dealers & Banks. Securities purchases and sales will only be executed through Primary Dealers or through direct purchase from the issuer or with non-Primary firms who meet the minimum requirements set forth below. The City will maintain active relationships with no more than six (6) firms who have been approved by the investment management committee. If the City uses an investment advisor, the advisor may be granted discretion to execute transactions utilizing their own list of approved broker/dealers.

- The firm must be registered with the National Association of Securities Dealers as a Broker or Broker/Dealer.
- Preference will be given to those firms that can provide other municipal references and demonstrate a working knowledge of California Government Code Sections 53601 et sec and 53635.

The City’s investment policy will be provided to every broker/dealer providing services to the City. Prior to effecting a transaction, staff will obtain offers from a minimum of two dealers to insure that the purchase price is competitive.

IX. COLLATERALIZATION

Collateralization will be required for time certificates of deposit (CD) and repurchase agreements. To anticipate market changes and provide a level of security for all funds, the collateralization will be 110% of market value for CDs and 102% for repurchase agreements. The City may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance.

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Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

X. SAFEKEEPING AND CUSTODY

Internal Controls

The CFO will establish an annual process of independent review by the City Council appointed external auditor. This review will provide internal control by assuring compliance with State Code and internal policies and procedures.

Delivery vs. Payment

All investment transactions will be executed on a delivery versus payment basis. Securities will be held in safekeeping by a third party custodian designated by the City. The custodian will be required to provide timely (written or on-line) confirmation of receipt and monthly position and transaction reports.

XI. REPORTING REQUIREMENTS

The CFO will provide to the City Council and City Manager monthly investment reports which provide a detailed summary of the status of the investment program. The monthly report will contain the following elements:

- A statement of compliance with the Government Code and this policy.
- A certification that the City has sufficient funds to meet expenditures for the following six-month period.
- A listing of all securities held at the end of the reporting period showing maturity date, coupon rate and yield.
- A listing of transactions.
- Average weighted maturity of the portfolio.
- Comparison of Par, Cost Basis, and Market Values.

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XII. PERFORMANCE STANDARDS

The City's portfolios are managed with the objective of obtaining a market rate of return, commensurate with identified risk constraints and cash flow characteristics. Because the composition of the portfolio fluctuates, depending on market and credit conditions, various indices will be used to monitor performance.

XII. INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by resolution of the City Council. The Policy shall be reviewed periodically by the CFO and any modifications made thereto must be approved by the City Council.

XIV. Appendix

Community Banking Program Guidelines

In addition to being in compliance with California Code sections 530630-53653 and City of Santa Rosa Investment Policy Number 000-26, funds may be invested in small and community banks within the Sonoma County and City of Santa Rosa service area under the following criteria:

1. The bank must be based and have its headquarters in Sonoma County, with at least one branch within the City of Santa Rosa;
2. The bank must provide certification and supporting information that indicates at least 15% in loans is invested within the City of Santa Rosa;
3. To ensure the City of Santa Rosa obtains a competitive rate for investments in the program, any potential investment or proposal must enjoy a rate of return equal to or

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greater than the Local Agency Investment Fund (LAIF) average quarterly rate existing at the time of the proposal;

4. Participating banks shall make an annual presentation to the City of Santa Rosa Investment Management Committee about their community involvement one month prior to the Certificate of Deposit maturity.
5. Upon the Investment Management Committee's review of community involvement, the existing investment will be evaluated for renewal by Finance staff.

Amended by Resolution No. 28260 Dated: April 9, 2013
Amended by Resolution No. 27979 Dated: September 13, 2011
Amended by Resolution No. 27000 Dated: December 18, 2007
Amended by Resolution No. 26740 Dated: December 12, 2006
Amended by Resolution No. 26413 Dated: October 11, 2005
Amended by Resolution No. 26091 Dated: October 5, 2004
Amended by Resolution No. 25810 Dated: November 18, 2003
Amended by Resolution No. 25441 Dated: October 22, 2002
Amended by Resolution No. 24616 Dated: November 14, 2000
Amended by Resolution No. 23735 Dated: October 27, 1998
Amended by Resolution No. 23329 Dated: October 17, 1998
Amended by Resolution No. 22809 Dated: August 13, 1996
Amended by Resolution No. 21236 Dated: February 23, 1993
Amended by Resolution No. 19745 Dated: December 26, 1989
Amended by Resolution No. 17133 Dated: January 8, 1985