



**REGULAR MEETING of the Audit and Finance Committee of the
Peninsula Clean Energy Authority (PCEA)
Monday, February 11, 2019
10:00 a.m.**

Peninsula Clean Energy, 2075 Woodside Road,
Redwood City, CA 94061

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation (including auxiliary aids or services) to participate in this meeting, or who have a disability and wish to request an alternative format for the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting, should contact Anne Bartoletti, Board Clerk, at least 2 working days before the meeting at (650) 260-0111 and/or abartoletti@peninsulacleanenergy.com. Notification in advance of the meeting will enable the PCEA to make reasonable arrangements to ensure accessibility to this meeting and the materials related to it. Attendees to this meeting are reminded that other attendees may be sensitive to various chemical based products.

If you wish to speak to the Committee, please fill out a speaker's slip located on the tables as you enter the meeting room. If you have anything that you wish to be distributed to the Committee and included in the official record, please hand it to a member of PCEA staff who will distribute the information to the Committee members and other staff.

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

This item is reserved for persons wishing to address the Committee on any PCEA-related matters that are as follows: 1) Not otherwise on this meeting agenda; 2) Listed on the Consent Agenda; 3) Chief Executive Officer's or Staff Report on the Regular Agenda; or 4) Committee Members' Reports on the Regular Agenda. Public comments on matters not listed above shall be heard at the time the matter is called.

As with all public comment, members of the public who wish to address the Committee are requested to complete a speaker's slip and provide it to PCEA staff. Speakers are customarily limited to two minutes, but an extension can be provided to you at the discretion of the Committee Chair.

ACTION TO SET AGENDA AND TO APPROVE CONSENT AGENDA ITEMS

This item is to set the final consent and regular agenda, and for approval of the items listed on the consent agenda. All items on the consent agenda are approved by one action.

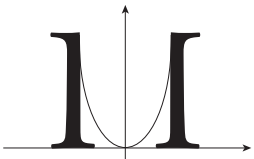
REGULAR AGENDA

1. Chair Report (Discussion)
2. Staff Report (Discussion)
3. Review Financial Reports and Investment Summary for Second Quarter FY2018-2019 (Discussion)
4. Committee Members' Reports (Discussion)

CONSENT AGENDA

5. Approval of the Minutes for the December 10, 2018 Meeting (Action)

Public records that relate to any item on the open session agenda for a board meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Board. The Board has designated Peninsula Clean Energy's office, located at 2075 Woodside Road, Redwood City, CA 94061, for the purpose of making those public records available for inspection. The documents are also available on the PCEA's Internet Web site. The website is located at: <http://www.peninsulacleanenergy.com>.



ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Peninsula Clean Energy Authority

Management is responsible for the accompanying financial statements of Peninsula Clean Energy Authority (PCE), a California Joint Powers Authority, which comprise the statements of net position as of December 31, 2018 and November 30, 2018, and the statements of revenues, expenses, and changes in net position, and the statements of cash flows for the month and six month period ending December 31, 2018, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, conclusion, nor provide any assurance on these financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about PCE's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to PCE because we performed certain accounting services that impaired our independence.

Maher Accountancy

San Rafael, CA
January 23, 2019



PENINSULA CLEAN ENERGY AUTHORITY

**STATEMENTS OF NET POSITION
As of December 31, and November 30, 2018**

	<u>December</u>	<u>November</u>	<u>Increase (Decrease)</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 119,152,817	\$ 109,981,516	\$ 9,171,301
Accounts receivable, net of allowance	17,249,684	21,574,106	(4,324,422)
Other receivables	132,772	132,231	541
Accrued revenue	11,719,383	10,094,986	1,624,397
Prepaid expenses	2,666,262	2,271,130	395,132
Deposits	3,045,217	3,136,417	(91,200)
Restricted cash	2,000,000	2,000,000	-
Total current assets	<u>155,966,135</u>	<u>149,190,386</u>	<u>6,775,749</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	305,614	289,884	15,730
Deposits	3,521,060	3,521,060	-
Total noncurrent assets	<u>3,826,674</u>	<u>3,810,944</u>	<u>15,730</u>
Total assets	<u>159,792,809</u>	<u>153,001,330</u>	<u>6,791,479</u>
LIABILITIES			
Current liabilities			
Accounts payable	787,701	815,293	(27,592)
Accrued cost of electricity	26,454,466	21,699,072	4,755,394
Accrued payroll and related liabilities	187,733	184,670	3,063
Other accrued liabilities	375,696	385,696	(10,000)
Supplier security deposits	1,630,940	1,630,940	-
User taxes and surcharges due to other governments	783,016	737,301	45,715
Total current liabilities	<u>30,219,552</u>	<u>25,452,972</u>	<u>4,766,580</u>
Noncurrent liabilities			
Supplier security deposits	692,826	635,901	56,925
Total liabilities	<u>30,912,378</u>	<u>26,088,873</u>	<u>4,823,505</u>
NET POSITION			
Investment in capital assets	305,614	289,884	15,730
Restricted for security collateral	2,000,000	2,000,000	-
Unrestricted	126,574,817	124,622,573	1,952,244
Total net position	<u>\$ 128,880,431</u>	<u>\$ 126,912,457</u>	<u>\$ 1,967,974</u>

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Month and Six Months Ended December 31, 2018

	<u>Month</u>	<u>Six Months</u>
OPERATING REVENUES		
Electricity sales, net	\$ 19,912,365	\$ 134,806,675
Green electricity premium	207,946	1,222,066
Electricity sales for resale	30,000	669,446
Total operating revenues	<u>20,150,311</u>	<u>136,698,187</u>
OPERATING EXPENSES		
Cost of electricity	17,371,789	87,825,624
Staff compensation and benefits	261,011	1,422,498
Data manager	313,022	1,884,829
Service fees - PG&E	103,087	619,181
Consultants and other professional fees	46,111	459,560
Legal & legislative services	61,155	601,553
Communications and noticing	42,704	422,295
General and administration	55,661	511,224
Program incentives	68,000	68,000
Depreciation	6,151	35,787
Total operating expenses	<u>18,328,691</u>	<u>93,850,551</u>
Operating income	<u>1,821,620</u>	<u>42,847,636</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous income	924	33,532
Interest and investment income	188,364	719,640
Interest and related expense	(42,934)	(85,867)
Total nonoperating revenues (expenses)	<u>146,354</u>	<u>667,305</u>
CHANGE IN NET POSITION		
	1,967,974	43,514,941
Net position at beginning of period	<u>126,912,457</u>	<u>85,365,490</u>
Net position at end of period	<u>\$ 128,880,431</u>	<u>\$ 128,880,431</u>

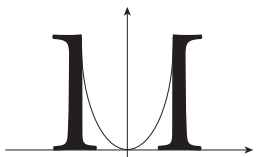
PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS
Month and Six Months Ended December 31, 2018

	Month	Six Months
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from electricity sales	\$ 22,812,531	\$ 144,816,011
Receipts from sales for resale	25,527	1,027,169
Receipts from miscellaneous income	75	32,683
Receipts from supplier security deposits	56,925	625,479
Tax and surcharge receipts from customers	335,792	2,292,041
Payments to purchase electricity	(13,045,911)	(84,726,998)
Payments for staff compensation and benefits	(253,034)	(1,387,067)
Payments for data manager	(313,199)	(1,916,626)
Payments for service fees - PG&E	(206,270)	(619,466)
Payments for consultants and other professional fees	(19,225)	(452,344)
Payments for legal services	(67,827)	(633,533)
Payments for communications and noticing	(51,801)	(425,514)
Payments for general and administration	(35,199)	(564,719)
Payments for program incentives	(18,750)	(18,750)
Tax and surcharge payments to other governments	(282,272)	(2,295,995)
Net cash provided (used) by operating activities	8,937,362	55,752,371
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Deposits and collateral paid	-	(2,608,070)
Deposits and collateral received	91,200	705,756
Interest and related expense payments	-	(42,934)
Net cash provided (used) by non-capital financing activities	91,200	(1,945,248)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(23,130)	(39,068)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income received	165,870	695,350
Net cash provided (used) by investing activities	165,870	695,350
Net change in cash and cash equivalents	9,171,302	54,463,405
Cash and cash equivalents at beginning of period	111,981,515	66,689,412
Cash and cash equivalents at end of period	\$ 121,152,817	\$ 121,152,817
Reconciliation to the Statement of Net Position		
Cash and cash equivalents (unrestricted)	\$ 119,152,817	\$ 119,152,817
Restricted cash	2,000,000	2,000,000
Cash and cash equivalents	\$ 121,152,817	\$ 121,152,817

PENINSULA CLEAN ENERGY AUTHORITY
STATEMENTS OF CASH FLOWS (continued)
Month and Six Months Ended December 31, 2018

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	<u>Month</u>	<u>Six Months</u>
Operating income (loss)	\$ 1,821,620	\$ 42,847,636
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	6,150	35,787
Revenue reduced for uncollectible accounts	70,668	477,773
Nonoperating miscellaneous income	924	33,532
(Increase) decrease in accounts receivable	4,253,754	5,363,661
(Increase) decrease in other receivables	21,953	20,324
(Increase) decrease in accrued revenue	(1,624,397)	2,993,443
(Increase) decrease in prepaid expenses	(395,132)	(468,238)
Increase (decrease) in accounts payable	(69,275)	(66,353)
Increase (decrease) in accrued payroll and related	3,063	30,517
Increase (decrease) in accrued cost of electricity	4,755,394	3,539,675
Increase (decrease) in accrued liabilities	(10,000)	370,696
Increase (decrease) in user taxes and energy surcharges due to other governments	45,715	(51,561)
Increase (decrease) in supplier security deposits	56,925	625,479
Net cash provided (used) by operating activities	<u>\$ 8,937,362</u>	<u>\$ 55,752,371</u>



ACCOUNTANTS' COMPILATION REPORT

Board of Directors
Peninsula Clean Energy Authority

Management is responsible for the accompanying special purpose statement of Peninsula Clean Energy Authority (PCE), a California Joint Powers Authority, which comprise the budgetary comparison schedule for the period ended December 31, 2018, and for determining that the budgetary basis of accounting is an acceptable financial reporting framework. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying statement nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any assurance on this special purpose budgetary comparison statement.

The special purpose statement is prepared in accordance with the budgetary basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This report is intended for the information of the Board of Directors of PCE.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the special purpose budgetary comparison statement, they might influence the user's conclusions about PCE's results of operations. Accordingly, this special purpose budgetary comparison statement is not designed for those who are not informed about such matters.

We are not independent with respect to PCE because we performed certain accounting services that impaired our independence.

Maher Accountancy

San Rafael, CA
January 23, 2019



**PENINSULA CLEAN ENERGY AUTHORITY
OPERATING FUND
BUDGETARY COMPARISON SCHEDULE
July 1, 2018 through December 31, 2018**

	<u>2018/19 YTD Budget</u>	<u>2018/19 YTD Actual</u>	<u>2018/19 YTD Budget Variance (Under) Over</u>	<u>2018/19 YTD Actual/Budget %</u>	<u>2018/19 Annual Budget</u>	<u>2018/19 Budget Remaining</u>
OPERATING REVENUES						
Revenue - Electricity	\$ 135,846,093	\$ 135,284,448	\$ (561,645)	100%	\$ 254,916,736	\$ 119,632,288
Revenue - ECO100	794,921	1,222,066	427,145	154%	1,627,364	405,298
Electricity sales for resale	-	669,446	669,446	-	-	(669,446)
Total Operating Revenues	<u>136,641,014</u>	<u>137,175,960</u>	<u>534,946</u>	<u>100%</u>	<u>256,544,100</u>	<u>119,368,140</u>
OPERATING EXPENSES						
Cost of energy	88,884,561	87,825,624	(1,058,937)	99%	176,147,894	88,322,270
Data manager	1,879,200	1,884,829	5,629	100%	3,758,400	1,873,571
PG&E service fees	630,000	619,181	(10,819)	98%	1,260,000	640,819
Bad debt expense	478,244	477,773	(471)	100%	897,904	420,131
Communications and outreach	487,800	417,247	(70,553)	86%	1,010,600	593,353
General and administration	613,100	503,524	(109,576)	82%	1,227,200	723,676
Professional services	666,056	312,334	(353,722)	47%	1,432,511	1,120,177
Energy programs	1,360,000	227,974	(1,132,026)	17%	3,200,000	2,972,026
Legal and regulatory	573,300	601,553	28,253	105%	1,146,600	545,047
Personnel	2,331,918	1,422,498	(909,420)	61%	4,492,745	3,070,247
Total Operating Expenses	<u>97,904,179</u>	<u>94,292,537</u>	<u>(3,611,642)</u>	<u>96%</u>	<u>194,573,854</u>	<u>100,281,317</u>
Operating Income (Loss)	<u>38,736,835</u>	<u>42,883,423</u>	<u>4,146,588</u>	<u>111%</u>	<u>61,970,246</u>	<u>19,086,823</u>
NON-OPERATING REVENUES (EXPENSES)						
Miscellaneous income	-	33,532	33,532	-	-	(33,532)
Investment income	220,000	719,640	499,640	327%	440,000	(279,640)
Interest and related expenses	(84,000)	(85,867)	(1,867)	102%	(168,000)	(82,133)
Total Operating Revenues (Expenses)	<u>136,000</u>	<u>667,305</u>	<u>531,305</u>	<u>491%</u>	<u>272,000</u>	<u>(395,305)</u>
OTHER USES						
Capital outlay	21,000	39,067	18,067	186%	42,000	2,933
Total other uses	<u>21,000</u>	<u>39,067</u>	<u>18,067</u>	<u>186%</u>	<u>42,000</u>	<u>2,933</u>
INCREASE IN NET POSITION	<u>\$ 38,851,835</u>	<u>\$ 43,511,661</u>	<u>\$ 4,659,826</u>		<u>\$ 62,200,246</u>	<u>\$ 18,688,585</u>

PENINSULA CLEAN ENERGY AUTHORITY
OPERATING FUND
BUDGET RECONCILIATION TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN NET POSITION
July 1, 2018 through December 31, 2018

Net increase (decrease) in available fund balance per budgetary comparison schedule:	\$ 43,511,661
Adjustments needed to reconcile to the changes in net position in the Statement of Revenues, Expenses and Changes in Net Position:	
Subtract depreciation expense	(35,787)
Add back capital asset acquisitions	39,067
Change in net position	<u>\$ 43,514,941</u>



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Investment Portfolio Review

Peninsula Clean Energy Authority

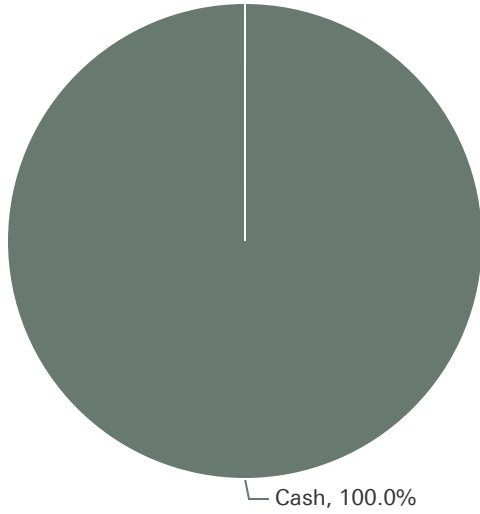
December 31, 2018



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Asset Allocation



ASSET TYPE	\$	%
Cash	\$100,786,840	100.0%
Total	\$100,786,840	100.0%

Portfolio Performance

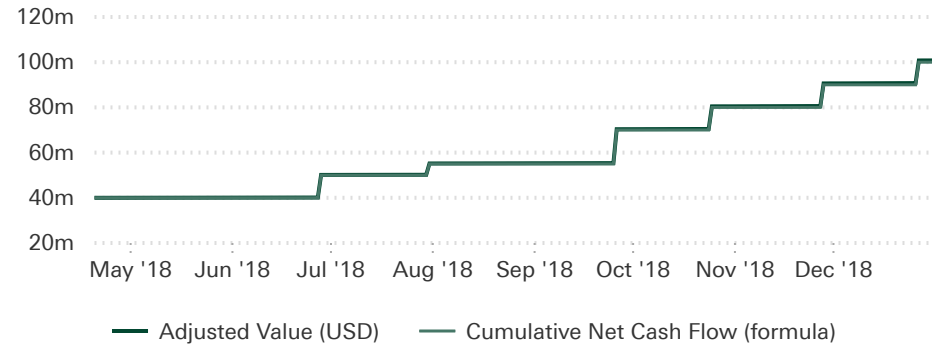
ASSET TYPE	QTD	YTD	ITD*
Cash	0.5%		1.3%
Total	0.5%		1.3%

Portfolio Activity

TRANSACTIONS	QTD	YTD	ITD*
Starting Value	\$70,358,772		\$40,000,000
Additions / Withdrawals	\$30,000,000		\$60,000,000
Gain / Loss	\$120,792		\$238,694
Income / Expenses	\$307,276		\$548,147
Change in Accrued Income	(\$1)		\$0
Current Value	\$100,786,840		\$100,786,840

*Inception date is 04-20-2018

Net Contributions vs. Market Value

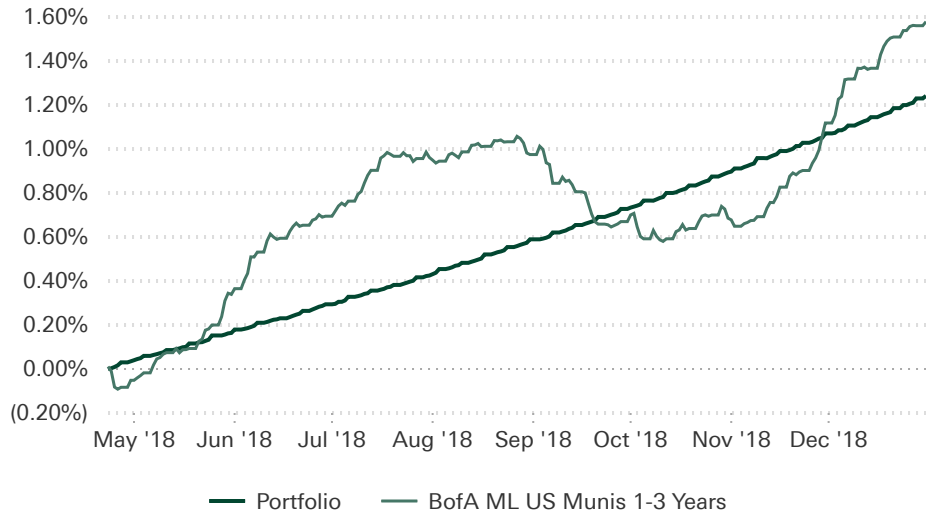




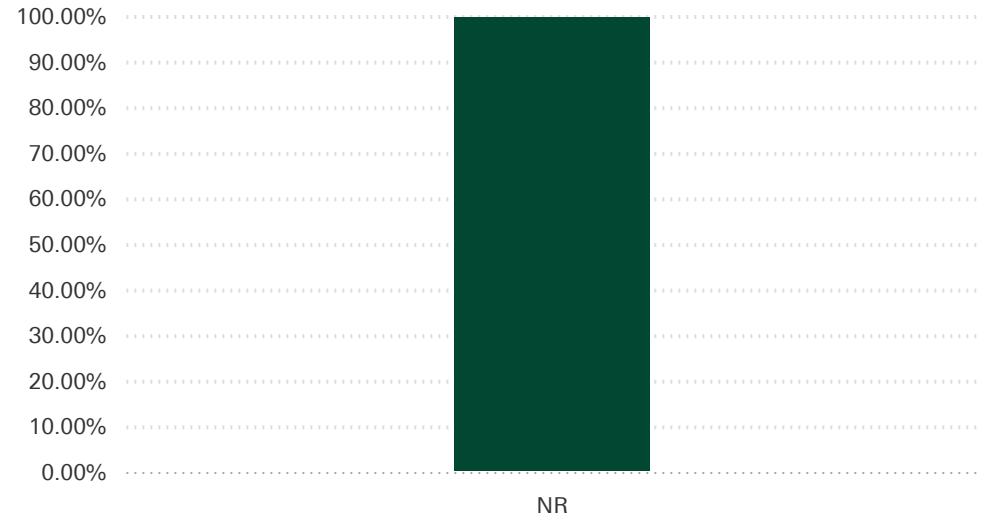
ASSET TYPE	\$	%	QTD	YTD	1 YR.	3 YR.	5 YR.	ITD	
Cash	\$100,786,840	100.0%	0.5%					1.3%	04-20-2018
Money Market Funds (all)	\$1,011,843	1.0%	(8.9%)					(7.3%)	04-23-2018
<i>Barclays US Treasury Bills 1-3 Months (Total Return)</i>			0.6%					1.4%	
U.S. Treasury Bills	\$99,774,998	99.0%	0.5%					1.2%	04-23-2018
<i>FTSE USBIG Treasury Bill 3M</i>			0.6%					1.4%	
Total	\$100,786,840	100.0%	0.5%					1.3%	04-20-2018



Performance History



Bond Quality



Fixed Income Performance by Asset Class

ASSET CLASS	\$	%	QTD	YTD	1 YR.	3 YR.	5 YR.	ITD	
U.S. Treasury Bills	\$99,774,998	100.0%	0.5%					1.2%	04-23-2018
Total	\$99,774,998	100.0%	0.5%					1.2%	04-23-2018
<i>BofA Merrill Lynch US Munis 1-3 Years</i>			<i>0.9%</i>					<i>1.6%</i>	

Portfolio Holdings

SECURITY	QUANTITY	COUPON RATE	MATURITY DATE	TIME TO MATURITY (YEARS)	CALL DATE	PRICE (USD)	MOODY'S RATING	S&P RATING	YTW	YTM	DURATION TO WORST	MARKET VALUE	% HELD (MV)	ANNUAL INCOME
United States Treas Bills B/E DTD 0.00 %	25,729.0	0.00%	01-03-2019	0.01	-	\$1,000	NR	NR	0.72%	0.72%	0.01	\$25,727,456	25.79%	\$0
United States Treas Bills B/E DTD	24,741.0	0.00%	01-10-2019	0.03	-	\$1,000	NR	NR	1.81%	1.81%	0.03	\$24,728,630	24.78%	\$0
United States Treas Bills B/E DTD	24,717.0	0.00%	02-07-2019	0.11	-	\$998	NR	NR	2.25%	2.25%	0.10	\$24,658,668	24.71%	\$0
United States Treas Bills B/E DTD	24,765.0	0.00%	03-07-2019	0.18	-	\$996	NR	NR	2.33%	2.33%	0.18	\$24,660,244	24.72%	\$0
Total		0.00%		0.08			NR	NR	1.77%	1.77%	0.08	\$99,774,998	100.00%	\$0



Change in Account Value



ACCOUNT	STARTING VALUE	ADDITIONS / WITHDRAWALS	TOTAL RETURN	CURRENT VALUE	1 YR RETURN
Managed Assets	\$0	\$100,000,000	\$786,840	\$100,786,840	1.3%
Peninsula Clean Energy Authority	\$0	\$100,000,000	\$786,840	\$100,786,840	1.3%
Total	\$0	\$100,000,000	\$786,840	\$100,786,840	1.3%



TRADE DATE	UNITS	TICKER SYMBOL	SECURITY	TYPE	PRICE PER SHARE	VALUE
10-05-2018	17,630.00	-	United States Treas Bills B/E DTD 0.00 %	Buy	\$999.88	(\$17,627,941.70)
10-11-2018	17,730.00	-	United States Treas Bills B/E DTD	Buy	\$994.46	(\$17,631,811.26)
10-19-2018	17,590.00	-	United States Treas Bills B/E DTD	Buy	\$999.83	(\$17,586,935.65)
10-25-2018	20,095.00	-	United States Treas Bills B/E DTD	Buy	\$999.65	(\$20,088,033.06)
10-25-2018	2,502.00	-	United States Treas Bills B/E DTD	Buy	\$998.82	(\$2,499,041.38)
10-25-2018	2,511.00	-	United States Treas Bills B/E DTD	Buy	\$995.30	(\$2,499,194.68)
10-25-2018	2,505.00	-	United States Treas Bills B/E DTD	Buy	\$997.98	(\$2,499,930.73)
11-02-2018	20,097.00	-	United States Treas Bills B/E DTD 0.00 %	Buy	\$999.82	(\$20,093,406.05)
11-08-2018	20,212.00	-	United States Treas Bills B/E DTD	Buy	\$994.23	(\$20,095,452.55)
11-16-2018	21,003.00	-	United States Treas Bills B/E DTD	Buy	\$999.76	(\$20,998,059.67)
11-16-2018	20,103.00	-	United States Treas Bills B/E DTD	Buy	\$999.76	(\$20,098,271.37)
11-16-2018	(21,003...	-	United States Treas Bills B/E DTD	(Cancellation) Buy	\$999.76	\$20,998,059.67
11-26-2018	20,240.00	-	United States Treas Bills B/E DTD	Buy	\$993.48	(\$20,107,990.27)
11-29-2018	2,265.00	-	United States Treas Bills B/E DTD	Buy	\$993.75	(\$2,250,847.33)
11-29-2018	2,250.00	-	United States Treas Bills B/E DTD	Buy	\$995.59	(\$2,240,070.48)
11-29-2018	22,348.00	-	United States Treas Bills B/E DTD 0.00 %	Buy	\$999.65	(\$22,340,211.72)
11-29-2018	2,250.00	-	United States Treas Bills B/E DTD	Buy	\$997.49	(\$2,244,345.84)
12-07-2018	23,458.00	-	United States Treas Bills B/E DTD	Buy	\$999.83	(\$23,453,968.27)
12-14-2018	23,462.00	-	United States Treas Bills B/E DTD	Buy	\$999.82	(\$23,457,729.68)
12-20-2018	23,470.00	-	United States Treas Bills B/E DTD	Buy	\$999.63	(\$23,461,294.27)
12-27-2018	2,260.00	-	United States Treas Bills B/E DTD	Buy	\$995.50	(\$2,249,838.34)
12-27-2018	2,255.00	-	United States Treas Bills B/E DTD	Buy	\$997.33	(\$2,248,977.59)
12-27-2018	25,729.00	-	United States Treas Bills B/E DTD 0.00 %	Buy	\$999.63	(\$25,719,587.56)
12-27-2018	2,250.00	-	United States Treas Bills B/E DTD	Buy	\$999.19	(\$2,248,188.12)



HIGHLIGHTS:

- **Volatility increased during Q4 as investors faced a turbulent environment riddled with trade wars, geopolitical risks, rising interest rates, and weaker economic growth stemming from Europe and Asia**
- **Despite the swoon in financial markets seen during the closing months of the year, U.S. economic data remained on solid footing supported by a historically tight labor market and a robust U.S. consumer**
- **Global growth remained U.S. - driven as emerging markets faced currency and interest rate headwinds. A stronger U.S. dollar dampened corporate gains abroad while increasing the burden for foreign borrowers**

OVERVIEW:

As we turn the page and welcome the new year, global stocks faced a turbulent environment during Q4. A combination of headwinds shifted investor sentiment to “risk-off” mode, and pushed markets sharply lower, despite a late rally on the day following Christmas. Investors witnessed an increase in volatility as escalating trade tensions between the U.S. and China raised fears that a prolonged trade dispute between the world’s two largest economies could slow down global growth. The Federal Reserve (the Fed) raised interest rates at their December meeting, further dampening investor risk appetite even though domestic economic data through the quarter showcased signs of sustained economic growth, while recession probabilities in the near-term remained relatively low. Furthermore, the U.S. unemployment rate continued at multi-decade low levels, while wages showed an uptick in growth, highlighting the resiliency and tightness of the labor market.

U.S. Equities Retreated as Uncertainty Rattled Investors

Investors struggled to grasp the uncertainty surrounding the major headlines of the quarter, including concerns over the U.S. government shutdown, evidence of slowing economic growth in China, and the ongoing trade quarrel between the U.S. and China. Meanwhile, the Federal Reserve continued its path of monetary policy tightening and rate normalization, raising interest rates for a fourth time in December. Despite reports of strong macroeconomic data and signs of rising inflationary pressures, the Fed’s hawkish stance reverberated across financial markets as investors grew concerned that the Fed could be raising rates too fast and too soon, and could unintentionally tip the balance of economic growth.

In addition, geopolitical tensions stemming from Europe, including worries of a hard Brexit and Italy’s dispute with the European Union over the nation’s budget deficit, coupled with reports of economic deceleration in China, further contributed to the gloomy investment environment. As a consequence, investors gravitated towards safe haven investments.

The Continued Strength of the U.S. Dollar has Dragged Emerging Markets

Across international markets, borrowing costs were a trending topic throughout the year, as higher interest rates driven by the Fed’s rate hikes, coupled with robust domestic economic data, led to the strengthening of the U.S. dollar against most international currencies. As a result, those countries which benefited from ultra-low U.S. dollar borrowing costs in past years as a source of relatively cheap financing are facing repayment hardships as interest payments ballooned and became increasingly difficult to service. Furthermore, dollar debt in the private sector has also increased, eroding corporate profits.



Emerging market equities slid into bear market territory as news of economic deterioration in countries ranging from Argentina to Turkey fueled worries that a global contagion would eventually drag developed markets down causing the global economy to stagnate. Doubts over the ability of the Chinese government to propel economic growth resurfaced after economic data signaled lukewarm growth. The trade war and tariffs further intensified the downturn in Chinese markets, which faced additional secular pressures including shifting demographics, slowing cyclical growth, amid other debt, environmental and real estate issues. In response, China is expected to continue on a path toward monetary policy easing.

Widening Credit Spreads and Flattening Yield Curves Contributed to Market Volatility

The credit cycle continued on a bumpy path as credit spreads moved wider during the quarter, adding volatility to financial markets. The significant increase in corporate leverage during recent years of cheap financing remained a leading concern across credit markets, as interest rates are expected to continue moving higher and evidence of deterioration in the credit quality of debt issuers grows. Investors also remained vigilant of the flattening U.S. Treasury yield curve, which saw short-term rates move closer to long-term rates during the quarter. As the yield curve continued flattening, worries that an inversion is looming also added uncertainty to the market, which has used this phenomenon in the past as an indicator and early warning of an upcoming recession. However, despite all the recent attention the yield curve has received, we believe that these concerns could be overstated given the relative health of the U.S. economy, which continues to benefit from a resilient labor market, robust U.S. consumers, and the decaying effects of past fiscal stimulus.

Conclusion:

Looking back at 2018, investors closed the year facing a series of challenges which led to dismal performance in Q4: ongoing trade disputes, economic and corporate growth expected to moderate, and the uncertainty surrounding the Fed's future interest hikes. Despite all these crosscurrents, economic data remained at healthy levels, as the unemployment rate continued at decade lows while wage growth climbed. Emerging market countries navigated choppy waters as a strong U.S. dollar weighed on those countries with large current-account deficits. Meanwhile, corporations with large U.S. dollar financing saw profits crippled by foreign exchange rates. International anxiety over Brexit and Italy's budget tussle with the European Union also weighed on performance in the Eurozone.

The recent market downturn and beginning of the New Year provides an opportunity for investors to reposition their portfolios and focus on risk management. As volatility increases and lingers, investors should manage future expectations and be aware that the bumpy ride experienced in the latter months of 2018 will take time before getting better. Broadly speaking, our asset allocation views still favor a proper balance between stocks, bonds, and cash. In turn, alternatives continue to hold our "ANGEY" acronym extant: alternatives are not good enough yet.



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**SPECIAL MEETING of the Audit and Finance Committee
of the Peninsula Clean Energy Authority (PCEA)
Monday, December 10, 2018
MINUTES**

2075 Woodside Road, Redwood City, CA
10:00 a.m.

CALL TO ORDER

Meeting was called to order at 10:05 a.m.

ROLL CALL

Present: Donna Colson, City of Burlingame, *Chair*
Carole Groom, County of San Mateo
Laurence May, Town of Hillsborough
Jeff Aalfs, Town of Portola Valley

Absent: Carlos Romero, City of East Palo Alto

Staff: Jan Pepper, Chief Executive Officer
Andy Stern, Chief Financial Officer
Jay Modi, Director of Finance and Administration
Matthew Sanders, Deputy County Counsel
Anne Bartoletti, Board Clerk

A quorum was established.

PUBLIC COMMENT

No public comment.

ACTION TO SET THE AGENDA AND APPROVE CONSENT AGENDA ITEMS

Motion Made / Seconded: May / Groom

Motion passed unanimously 4-0

SPECIAL MEETING AGENDA

1. CHAIR REPORT

Donna Colson—Chair—verified that those Audit and Finance Committee members present would return and would be willing to serve on this committee in 2019. All those present signified the affirmative.

2. STAFF REPORT

Andy Stern—CFO—reported that PCE’s daily revenues are being transferred to an interest-bearing account with expected earnings of approximately \$200,000 per year. He reported that he met with representatives from First Republic Bank to revise PCE’s Investment Policy, and those revisions will be presented to the Board at the December 20, 2018 Board meeting.

3. COMMITTEE MEMBERS’ REPORTS

None.

4. REVIEW FINANCIAL REPORTS AND INVESTMENT SUMMARY FOR FIRST QUARTER OF FISCAL YEAR 2018-2019

Andy Stern reviewed PCE’s current financial statements for the first quarter of fiscal year 2018-2019. He highlighted the revenue impacts of cooler temperatures and lower energy usage in August and September 2018 compared to those months in 2017, he reviewed PCE’s budget, and he reported that PCE’s net position was \$108.6 million as of September 30, 2018.

Andy reviewed PCE’s investment portfolio report for the first quarter of fiscal year 2018-2019 and reported that the average Yield-to-Maturity is approximately 2.0%. He reported that PCE is evaluating diversification into other investment options to increase overall yield, upon the Board’s approval of the revised Investment Policy Statement.

5. REVIEW PCE’S CURRENT INSURANCE COVERAGE

Andy Stern reviewed PCE’s current liability insurance and umbrella insurance coverage, and reported that PCE has been an additional insured under the County of San Mateo’s policy since PCE’s initial launch. He suggested that now that PCE is fully operational, broader coverage should be explored. Andy reported that PCE has a direct policy for Directors and Officers (D&O)/Employment Practices Liability insurance, as well as for Workers’ Compensation.

6. STATUS OF PCE TREASURER

Andy Stern reported that the Exercise of Powers Act (Government Code Sections 6500, et seq.) under which PCE was created, requires that each Joint Powers Authority (“JPA”) have a Treasurer, and that Sections 6505.5 and 6505.6 govern who can serve as Treasurer. Andy reported that the JPA Agreement that formed PCE selected the County Treasurer as Treasurer, and provides that the Board may transfer the responsibilities of Treasurer to any person or entity as the law may provide at the time. He reported that the duties and responsibilities of the Chief Financial Officer (“CFO”) closely align with the responsibilities of the Treasurer role, and that at the December 20, 2018 Board meeting, it will be recommended that he, Andy Stern, be appointed Treasurer.

7. REVIEW MANAGEMENT LETTER OBSERVATIONS AND RECOMMENDATIONS PRESENTED BY PISENTI AND BRINKER LLP AS PART OF FY2017-2018 AUDIT

Andy Stern reported that, as part of the requirements of completing the audit, PCE’s auditors published their recommendations of items that came to their attention while performing their audit. Andy reviewed the Management letter’s observations and recommendations regarding internal controls and company growth, and PCE’s specific responsibilities related to oversight and approval of customer billing activities by Calpine. Andy also reviewed PCE’s management response summarizing PCE’s practices.

8. APPROVE 2019 MEETING SCHEDULE

The Committee members reviewed the proposed Meeting Schedule for 2019 and identified scheduling conflicts. They reviewed the 2019 Meeting Schedule for the Executive Committee, and found those dates to be better. They reached a consensus that their proposed 2019 Meeting Schedule be amended so the Audit and Finance Committee will meet at 10:00 a.m. on the dates that the Executive Committee will meet in 2019.

Motion Made / Seconded: May / Aalfs

Motion passed unanimously 4-0

ADJOURNMENT

Meeting was adjourned at 11:25 a.m.