



Request for Proposals

Peninsula Clean Energy (PCE), a California Power Authority, is seeking proposals from interested vendors for *Investment Advisory Services*.

Responses are due *January 31, 2020 at 5:00 pm Pacific Time*.

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1 RFP OVERVIEW

Peninsula Clean Energy Authority (“PCE”) issues this Request for Proposals (RFP) to seek offers from qualified providers for Investment Advisory Services (“Proposer”). PCE will evaluate the offers received from this RFP with plans to negotiate and execute a contract with the selected Proposer by March 1, 2020. The contract will be taken to PCE’s Board of Directors for final approval.

This RFP-

- Provides general background on PCE
- Describes the services sought by PCE (scope of work)
- Provides an opportunity for Proposers to describe their qualifications and assets and explain how they could contribute to services requested

1.1 Services Overview

PCE is seeking proposals from qualified investment management firms to provide investment services in a comprehensive manner to handle the day-to-day administration and provide discretionary investment advisory services to help govern PCE’s investment portfolio. The portfolio was valued in excess of \$125 million as of September 2019 having grown from approximately \$70 million at the end of September 2018. The current portfolio is managed by a single investment management provider. PCE is looking to diversify the management of its growing asset portfolio by adding a second manager. While the split has not yet been determined, PCE anticipates that a second manager will start with an initial amount in excess of \$50 million.

All interested Proposers are encouraged to submit comprehensive proposals that offer the highest quality of service while understanding and adhering to PCE’s overall investment policy (Exhibit A) and ensuring that the portfolio structure meets PCE’s needs. PCE’s primary objective is to establish relationship with an investment portfolio management firm that invest funds in a manner which will provide safety of principal while meeting the short- and long-term cash flow needs of PCE. The selected Proposer must comply with all Federal, State and Local laws governing the investment of monies under the control of the Treasurer, and as specified in the California Government Code (CGC) Section 53600.5.

2. ABOUT PENINSULA CLEAN ENERGY

Peninsula Clean Energy (PCE), a community choice energy (CCE) aggregator, is San Mateo County's official electricity provider. Formed in February 2016, PCE is a joint power authority, consisting of the County of San Mateo and all twenty of its towns and cities. PCE provides cleaner and greener electricity, and at lower rates, than the incumbent investor-owned utility (IOU), Pacific Gas & Electric Company (PG&E). PCE plans for and secures commitments from a diverse portfolio of energy-generating resources to reliably serve the electric energy requirements of its customers over the near-, mid-, and long-term planning horizons. PCE's programs include advancing the adoption of electric vehicles and transitioning building fossil fuel uses to low-carbon electricity. For more information on PCE, please go to www.peninsulacleanenergy.com. As part of its mission-driven, collaborative, not-for-profit, locally-focused roots, PCE is committed to the following strategic goals:

2.1 Strategic Goals

1. Design a diverse power portfolio that is greenhouse gas free.
 - 100% GHG free by 2021
 - sourced by 100% CA RPS eligible renewable energy by 2025 on a time coincident basis, provided it is economically viable
 - create a minimum of 20 MWs of new local power by 2025
2. Continually strive to offer ECOPlus at rates that are lower than PG&E rates provided it is economically viable.
3. Stimulate development of new renewable energy generation and storage projects in San Mateo County and California through PCE's procurement activities.
4. Demonstrate quantifiable economic and environmental justice benefits to the County/region including by placing a priority on local hiring and inclusionary workforce development practices with a goal of increasing diversity.
5. Implement programs to further reduce greenhouse gas emissions and support the county's community-wide efforts to be completely GHG-free by 2045 by investing in electric transportation, energy efficiency and demand response, and partnering effectively with municipalities, business, schools, and nonprofit/faith organizations.

6. Maximize and maintain customer participation in PCE.
 - Provide a superior customer experience
 - Develop PCE brand awareness and loyalty throughout the County
 - Actively encourage voluntary participation in its ECO100 renewable energy product
 - Achieve recognition as an EPA Green Power Community for all cities and towns in San Mateo County and EPA Green Power Partnership for all cities with municipal accounts enrolled in ECO100 by 2018
7. Build a financially sustainable organization.
 - Build sufficient reserves in a rate stabilization fund
 - Achieve an investment grade credit rating by 2021
8. Foster a work environment that espouses sustainable business practices and cultivates a culture of innovation, diversity, transparency, integrity, and commitment to the organization's mission and the communities it serves.
9. Leverage Peninsula Clean Energy/Silicon Valley expertise and relationships to support innovation across all of PCE's programs and activities.
10. Assist in setting up CCAs in other areas of the state, including where PCE has utility scale generation.

3 RFP SCHEDULE

RFP Target Schedule

Event	Date
PCE releases RFP for Investment Management Services	December 20, 2019
Deadline for Proposers to submit questions	January 17, 2020
PCE provides responses to all questions on PCE's website	January 27, 2020
Deadline for Proposers to submit proposals	February 7, 2020
In-person interviews of top proposers at PCE's offices	Week of February 24, 2020
Anticipated date that PCE will notify selected Proposer	March 8, 2020
Start date of Investment Management	April 1, 2020

- **Question & Answer:** Proposers may submit questions concerning the RFP to strategy@peninsulacleanenergy.com.
- **Response Due:** Proposals must be submitted by February 7, 2020 and must include the required documents described below in Section 5: Content of Response.
- **Response Review:** PCE will evaluate all proposals according to the criteria listed below. During this phase, PCE will identify submitted proposals for short-listing, and then notify short-listed participants.
- **Interviews with Shortlisted Participants:** PCE will conduct interviews with shortlisted Proposers at PCE's offices in Redwood City.

4 PROPOSAL SUBMITTAL

Proposals must be received on or before the above deadline and submittal must be by email to strategy@peninsulacleanenergy.com with the subject “**Proposal - <Proposer Name> - Investment Management**”.

By participating in PCE’s RFP process, Proposer acknowledges that it has read, understands, and agrees to the terms and conditions set forth in these RFP Instructions. PCE reserves the right to reject any offer that does not comply with the requirements identified herein. Furthermore, PCE may, in its sole discretion and without notice, modify, suspend, or terminate the RFP without liability to any organization or individual. The RFP does not constitute an offer to buy or create an obligation for PCE to enter into an agreement with any party, and PCE shall not be bound by the terms of any offer until PCE has entered into a fully executed agreement.

Only electronic submittals will be accepted.

5 CONTENT OF RESPONSE

Interested proposers must submit the following documents (except those marked “Optional”) to be considered for awarding of this proposal:

5.1 Proposal Structure

The submitted proposal shall have the following elements:

- i. Cover Page
- ii. Table of Contents
- iii. Primary Contact Information
- iv. Responses to Questionnaire
- v. Proposed Fees
- vi. List of References
- vii. Attachments

5.1.1 Primary Contact Information

Primary Contact Information should include the following:

- Reference to this RFP
- Legal business name, address, telephone number, and business status (corporation, limited partnership, individual, etc.).
- Name of Proposer's primary contact with respect to this RFP along with telephone number and email address.
- A signature of an authorized individual.

5.1.2 Questionnaire

A. Qualifications and Experience of the Company

1. Describe your firm's history and organizational structure.
2. Describe your firm's experience in managing fixed income portfolios for public funds and governmental entities.
3. Describe your firm's experience with governmental agency investment policies and with serving public agency clients.
4. Describe your overall client base in terms of number and type of clients, total assets under management, and composition of portfolios currently managed.
5. List any pending administrative proceedings, investigations and civil suits against the firm relating to the firm's performance of its professional duties.
6. List all litigation or proceedings to which your firm is a party which would either (a) materially impair your ability to perform the services enumerated herein for which this RFP was issued, or (b) if decided in an adverse manner, materially affect the financial condition of your firm.
7. Describe any known or perceived actual or potential conflicts of interest with the City, its elected officials, or employees.
8. Comment on other areas which differentiate your company from your competitors.
9. Describe the controls in place to guarantee that the investments conform to PCE's policies and to state law.

10. Describe your plan for a regular review process to assure PCE staff that services are being provided in the most cost-effective manner.

B. Qualifications and Experience of Team and Relationship Services

1. Describe your company's philosophy regarding account or relationship management.
2. Identify and provide background information on the key person (Account Executive) who will take the most active role in administration of PCE's account. PCE expects direct access to the Account Executive on all investment matters.
3. Identify the members of the plan service team including their tenure with your firm, background, education, professional licenses or designations, office location and the role they will play in managing PCE's account. Identify other offices and/or corporate resources, which you intend to use in providing the requested services. Include performance history for the past five years.
4. Will you use any subcontractors for servicing any part of this plan? If yes, describe your relationship with the subcontractor, the subcontractor's history and experience in providing similar fund services and the experience of the subcontractor's employees that will provide services to the plan.
5. Describe the reporting and any online services associated with your Services:
 - a. Investment Reporting
 - b. Custodial Activity Reporting
 - c. Other

C. Investment Services

1. Describe your philosophy regarding managing public fund assets:
 - a. Initial investments
 - b. Ongoing process and additional deposits
 - c. How do you select and assess the available investments?
 - d. Do you provide recommendations for rebalancing?
 - e. How frequently do you formulate and review fixed income strategy?
 - f. Describe your firm's technical research capabilities and what percentage of research is conducted in-house versus utilizing outside resources.

2. How often will PCE's investment guidelines or policies (including the asset allocation recommendation) be reviewed? PCVE is looking to update/revise its current Investment Policy (attached as Exhibit A). Will you be able to provide advice on recommended changes?
3. Are portfolios managed by a team or individual manager? What back-up plan is in place when the manager is away?

5.1.3 Proposed Fees

1. Provide a comprehensive fee proposal outlining any one-time, up-front fee and ongoing fees for all services including, but not limited to asset allocation recommendations, asset management (including underlying fund or manager fees), funding analysis, trust document and trustee/custodial services including asset-based and fixed fees.
2. Please provide a fee proposal based on Average Assets Under Management of between \$25 million and \$100 million with a breakdown of fees as funds increase.
3. Fee quotes for investment services and consulting services (if applicable) should be shown separately.
4. List the expense ratios of funds/portfolios available.
5. Describe in detail any surrender, withdrawal, or deferred sales charges within your products. Describe any fee related to transfer of assets and restrictions or costs related to termination of a contract with your firm.
6. Verify if there is a minimum fee requirement for the plan, and if so, what is the basis for such a fee?
7. Describe in detail any revenue sharing agreements you have with any insurance providers, investment managers and/or sub-advisors and any remuneration you derive for providing services to such entities. Include any 12b-1, service, distributor, or platform fees you derive from the investment managers and/or sub-advisors.
8. Describe any minimum investment periods, surrender, withdrawal, or deferred sales charges within your products

5.1.4 References

1. Please list the name, address, and telephone number of references from three recent clients. Please provide a brief description of the work provided for each reference.
2. Provide your latest financial statement and describe in detail the financial backing and stability of your company. Describe any major claims, settlements or other exposures pending against your company

3. Provide a Certificate of Insurance evidencing the coverage types and the minimum limits.

5.1.4 Supplier Diversity Questionnaire (Optional)

PCE's Supplier Diversity Questionnaire is attached to this RFP. Please note, your response (or lack thereof) will have no impact on your contract status or eligibility to work with PCE in accordance with state law.

6 REVIEW AND SELECTION PROCESS

Evaluation will be based on a combination of quantitative and qualitative criteria. PCE will evaluate each proposal against these criteria and select a subset of proposals to move to the Shortlist phase. The most qualified individual or firm will be recommended by the RFP Evaluation Committee based on the overall strength of each proposal. The evaluation is not restricted to considerations of any single factor such as cost. The criteria used as a guideline in the evaluation will include, but not be limited to, the following:

1. Qualifications and experience of the entity, including capability and experience of key personnel and experience with other public and/or private agencies to provide these services
2. History of successfully performing services for public and/or private agencies and other CCA's
3. Financial viability of proposer
4. Completeness of the proposed approach, including clarity of understanding of the scope of services to be provided and appropriateness of the proposed solution/services
6. Ability to meet any required timelines or other requirements
7. Existence of and circumstances surrounding any claims and violations against your organization
8. Cost to PCE for the primary services described by this RFP
9. References

8 SUPPLIER DIVERSITY

Consistent with its strategic goals, PCE has a strong commitment to foster a work environment that espouses sustainable business practices and cultivates a culture of innovation, diversity, transparency, integrity, and commitment to the organization's mission and the communities it serves. As part of that goal, PCE strives to ensure its use of vendors and suppliers who share its commitment to sustainable business and inclusionary practices.

To help ensure an inclusive set of vendors and suppliers, PCE's policy requires it to:

1. Strive to use local businesses and provide fair compensation in the purchase of services and supplies;
2. Proactively seek services from local businesses and from businesses that have been Green Business certified and/or are taking steps to protect the environment; and
3. Engage in efforts to reach diverse communities to ensure an inclusive pool of potential suppliers.

General Order 156 (GO 156) is a California Public Utilities Commission ruling that requires utility entities to procure at least 21.5% of their contracts with majority women-owned, minority-owned, disabled veteran-owned and LGBT-owned business enterprises' (WMDVLGBTBEs) in all categories. Qualified businesses become GO 156 Certified through the CPUC and are then added to the GO 156 Clearinghouse database.

The CPUC Clearinghouse can be found here: www.thesupplierclearinghouse.com. While PCE is not legally-required to comply with GO 156, PCE's policies and commitment to diversity are consistent with the principles of GO 156, and, therefore, respondents to this RFP are asked to voluntarily disclose their GO 156 certification status as well as their efforts to work with diverse business enterprises, including those owned or operated by women (WBE), minorities (MBE), disabled veterans (DVBE), and lesbian, gay, bisexual, or transgender people (LGBTBE).

As a public agency and consistent with state law, PCE will not use any such provided information in any part of its decision-making or selection process. Rather, PCE will use that information solely to help evaluate how well it is conforming to its own policies and goals.

Pursuant to California Proposition 209, PCE does not give preferential treatment based on race, sex, color, ethnicity, or national origin.

9 PCE LEGAL OBLIGATIONS

PCE is not obligated to respond to any offer submitted as part of the RFP. All parties acknowledge that PCE is a public agency subject to the requirements of the California Public Records Act, Cal. Gov. Code section 6250 et seq. PCE acknowledges that another party may submit information to PCE that the other party considers confidential, proprietary, or trade secret information pursuant the Uniform Trade Secrets Act (Cal. Civ. Code section 3426 et seq.), or otherwise protected from disclosure pursuant to an exemption to the California Public Records Act (Government Code sections 6254 and 6255) ("Confidential Information"). Any such other party acknowledges that PCE may submit to the other party Confidential Information. Upon request or demand of any third person or entity not a party to this RFP ("Requestor") for production, inspection and/or copying of information designated as Confidential Information by a party disclosing such information ("Disclosing Party"), the party receiving such information ("Receiving Party"), as soon as practical but within three (3) business days of receipt of the request, shall notify the Disclosing Party that such request has been made, by telephone call, letter sent via email and/or by US Mail to the address or email address listed on the cover page of the RFP. The Disclosing Party shall be solely responsible for taking whatever legal steps are necessary to protect information deemed by it to be Confidential Information and to prevent release of information to the Requestor by the Receiving Party. If the Disclosing Party takes no such action, after receiving the foregoing notice from the Receiving Party, the Receiving Party shall be permitted to comply with the Requestor's demand and is not required to defend against it.

10 GENERAL TERMS AND CONDITIONS

1. **PCE's Reserved Rights:** PCE may, at its sole discretion: withdraw this Request for Proposal at any time, and/or reject any or all materials submitted. Respondents are solely responsible for any costs or expenses incurred in connection with the preparation and submittal of the materials for this RFP.
2. **Public Records:** All documents submitted in response to this RFP will become the property of PCE upon submittal and will be subject to the provisions of the California Public Records Act and any other applicable disclosure laws.
3. **No Guarantee of Contract:** PCE makes no guarantee that a contractor and/ or firm added to the qualified vendor list will result in a contract.
4. **Response is Genuine:** By submitting a response pursuant to this RFP, Respondent certifies that this submission is genuine, and not sham or collusive, nor made in the interest or on behalf of any person not named therein; the submitting firm has not directly or indirectly induced or solicited any other submitting firm to put in a sham bid, or any other person, firm or corporation to refrain from submitting a submission, and the submitting firm has not in any manner sought by collusion to secure for themselves an advantage over any other submitting firm.

11 PCE Supplier Diversity Questionnaire (Optional)

Providing information in this questionnaire is optional. As a public agency and consistent with state law, PCE will not use any such provided information in any part of its decision-making or selection process.

Contact information:

Business Name
Email address
Phone number
Where is your business
located/headquartered?

Labor Diversity:

1. Is your business certified under General Order 156 (GO 156)?

- Yes
- No
- Qualified as WMDVLGBTBEs, but not GO 156 Certified

If you answered either “Yes” or “Qualified” above, please choose all categories that apply below.

- Woman-owned
- Minority-owned
- Disabled Veteran-owned
- LGBT-owned

2. Does your business use subcontractors that are certified under GO 156?

- Yes
- No
- Qualified as WMDVLGBTBEs, but not GO 156 Certified

If you answered either "Yes" or "Qualified" above, please choose all categories that apply below.

- Woman-owned
- Minority-owned
- Disabled Veteran-owned
- LGBT-owned

3. Does your business have hiring targets of minority-owned, women-owned, LGBTQ-owned, or disabled veteran-owned subcontractors?

- Yes
- No
- Not applicable

Labor Agreements:

This section of questions focuses on the labor agreements of your business. If your business/contract with PCE does not have a labor component, please answer "not applicable."

1. Does your business have history of using local-hires, union labor, or multi-trade project labor agreements?

- Yes, within PCE's service area of San Mateo County
- Yes, CA-based labor, but not local to PCE's service area of San Mateo County

- No
- Not applicable

If you answered “Yes, within PCE’s service area of San Mateo County” above, please provide the percentage of labor agreements with local, union, and multi-trade labor (if available) and describe past efforts.

If you answered “Yes, CA-based labor, but not local to PCE’s service area of San Mateo County” above, from where in California is the labor sourced?

2. In your proposed contract with PCE, does your business plan to use local hires, union labor, or multi-trade project labor agreements?

- Yes
- No
- Not applicable

If you answered “Yes” above, please quantify the number of such labor agreements and explain.

3. Does your business pay workers prevailing wage rates or the equivalent?

Prevailing wage in California is required by state law for all workers employed on public works projects and determined by the California Department of Industrial Relations according to the type of work and location of the project. To see the latest prevailing wage rates, go to www.dir.ca.gov/Public-Works/Prevailing-Wage.html

- Yes
- No
- Not applicable

4. In your proposed contract with PCE, does your business pay and/or plan to pay prevailing wages or the equivalent?

To see the latest prevailing wage rates, go to www.dir.ca.gov/Public-Works/Prevailing-Wage.html

- Yes
- No
- Not applicable

5. Does your business support and/or use apprenticeship programs?

- Yes
- No
- Not applicable

If you answered “Yes” above, please describe the apprenticeship programs your business plans to use.

6. Does your business employ workers and/or use businesses from PCE’s service area of San Mateo County?

- Yes
- No

If you answered “Yes” above, please quantify the number of workers/businesses, the businesses used, and in which communities the workers or business reside.

Equity, Diversity, Inclusion, and Environmental Justice:

PCE is committed to equity, diversity, inclusion, and environmental justice both within our organization and within our communities.

1. Does your business have initiatives to promote workplace diversity?

- Yes
- No

If you answered “Yes” above, please describe such initiatives or provide any supporting statistics or documentation for diversity within the business.

2. What other efforts related to equity, diversity, inclusion, or environmental justice does your business pursue?

3. If there is anything else related to supplier diversity that is not captured in your answers above, please describe below:

Exhibit A: Investment Policy

Peninsula Clean Energy Investment Policy

PURPOSE

This statement contains guidelines for the prudent investment of PCE's cash balances in accordance with Government Code sections 53600, et. seq. The overarching goal of PCE's Investment Policy is to protect PCE's pooled cash while producing a reasonable rate of return on investments.

SCOPE

The Investment Policy applies to all funds and investment activities of PCE. This does not apply to the investment of bond proceeds, which are governed by the appropriate bond documents. This does not apply to any pension or other post-employment benefit funds held in a trust, as PCE does not have any such funds at this time and has no plans to have such funds.

PRUDENCE

The standard of prudence to be used by investment officials will be 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."

OBJECTIVES

The primary objectives, in priority order, of the investment activities of PCE are

1. SAFETY – Preservation of principal is the foremost objective of Peninsula Clean Energy.
2. LIQUIDITY – PCE's portfolio will remain sufficiently liquid to enable PCE to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.

3. RETURN – PCE’s portfolio will be designed to attain a market rate of return through economic cycles consistent with the constraints imposed by its safety and liquidity objectives.

DELEGATION OF INVESTMENT AUTHORITY

Pursuant to Government Code Section 53607, the Treasurer (and his/her designee, if necessary) is authorized to invest and reinvest money of PCE, to sell or exchange securities so purchased, and to deposit such securities for safekeeping in accordance with and subject to this investment policy.

PCE may engage the support services of outside investment advisors in regard to its investment program, so long as these services are likely to produce a net financial advantage or necessary financial protection of PCE’s financial resources. Outside investment advisors must be approved by the Chief Executive Officer, the Treasurer and the Board of Directors. It is PCE’s intention to use the services of outside investment advisors to manage PCE’s investment program. PCE will be responsible for managing the investment advisors.

INVESTMENT PROCEDURES

The Chief Financial Officer and Chief Executive Officer will recommend investment procedures for the operation of PCE’s investment program for approval by PCE’s Board of Directors.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The purchase by PCE of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Chief Financial Officer is responsible for the evaluation of all institutions that wish to do business with PCE, to determine if they are adequately capitalized, staffed by qualified investment professionals, and agree to abide by the conditions set forth in PCE’s Investment Policy and any other guidelines that may be provided. This will be done annually by having the financial institutions:

1. Provide written notification that they have read, and will abide by, PCE's Investment Policy.
2. Submit their most recent audited Financial Statements within 120 days of the institution's fiscal year end.

If PCE has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of PCE.

Purchase and sale of securities will be made on the basis of best execution.

ACCEPTABLE INVESTMENT INSTRUMENTS

Where this section specifies a percentage limitation for a particular security type or issuer, that percentage is applicable only on the date of purchase and shall be calculated on the basis of market value. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the investment.

PCE will limit investments in any one non-government issuer, except investment pools and money market funds, to no more than 5% of market value regardless of security type.

Acceptable investments authorized for purchase on behalf of PCE are:

1. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **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.
3. **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 that is rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical-rating organization (NRSRO). Purchases of the obligations described in this subdivision and in subdivision 4 (registered treasury notes or bonds of any of the other 49 states in addition to California) collectively may not exceed 20% of PCE's portfolio.
4. **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 these states that is rated in a rating category of “A” or its equivalent or better by an NRSRO. Purchases of the obligations described in this subdivision and in subdivision 3 (obligations of the State of California or any local agency within the state) collectively may not exceed 20% of PCE’s portfolio.

5. **Commercial Paper** of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must 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 dollars (\$500,000,000), and (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, and (iii) has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

Eligible commercial paper will have a maximum maturity of 270 days or fewer. No more than 20% of PCE’s portfolio may be invested in commercial paper. PCE may purchase no more than 10% of the outstanding commercial paper of any single issuer. No more than 5% of the outstanding commercial paper investments can be invested in the Energy industry/sector.

6. **Negotiable Certificates of Deposit** 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- or state-licensed branch of a foreign bank. Eligible negotiable certificates of deposit (negotiable CDs) shall be rated in a rating category of “A” for long-term, “A-1” for short-term, their equivalents, or better by an NRSRO. No more than 20% of PCE’s portfolio may be invested in negotiable CDs.
7. **Demand Deposits - Collateralized**
8. **Passbook Savings Accounts - Collateralized**
9. **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, money market funds must be managed with the goal of maintaining a stable net asset value (NAV) per share of \$1.00.

Further, to be eligible for investment pursuant to this subdivision these companies (money market funds) will either: (i) attain the highest ranking or the highest letter and numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

It is possible that a money market fund that is managed with the goal of maintaining a stable NAV per share of \$1.00 may be unable to maintain an NAV of \$1.00 per share due to market conditions or other factors. In such instances, the Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the fund(s), subject to any restraints imposed by the money market fund(s).

No more than 20% of PCE's investment portfolio may be invested in money market funds or mutual funds combined. Further, no more than 10% of PCE's investment portfolio may be invested in any one money market fund. A money market fund's holding may not include auction rate securities or other securities that are not allowed under PCE's investment policy.

10. **Repurchase Agreements.** Overnight Repurchase Agreements shall be used solely as short-term investments not to exceed 3 days.
11. **Local Agency Investment Fund (State Pool)** - An investment pool managed by the State Treasurer. PCE can invest up to the maximum amount permitted by the State Treasurer.
12. **County Investment Fund (San Mateo County Pool)** - Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or "Pool") organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions to (q) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the Joint Powers Authority. The Pool will be rated in a rating category "AAA" or its equivalent by a NRSRO. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will 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 subdivisions (a) to (q) Government Code Section 53601, inclusive.
 - c. The adviser has assets under management in excess of five hundred

million dollars (\$500,000,000).

RESTRICTION ON INVESTMENT POLICIES AND PCE CONSTRAINTS

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for certain types of investments and also limits the percentage of total investments which can be placed in certain classifications. Investments must meet the time schedules as indicated by the cash flow projections of PCE. Investments will be purchased with the intent to hold until maturity, however this will not preclude the sale of securities prior to maturity in order to reposition the portfolio's duration, credit quality, or enhance the rate of return.

INVESTMENT POOLS

The State pool and San Mateo County Pool invest in additional Government Code authorized investments that are not approved for *direct* purchase by the PCE's Board of Directors. These pools shall provide a current investment policy and monthly reports for review by the Chief Financial Officer and Treasurer. PCE is authorized to invest in these pools provided they are in conformance with their investment policies.

MATURITY LIMIT

State law requires that the maturity of any given instrument should not exceed five years unless specifically approved by PCE Board of Directors at least three months before the investment is made. Maximum Maturity for PCE's investments shall be limited to 2 years. Maximum Weighted Average Maturity is limited to 1 year.

INTERNAL CONTROL

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of PCE are protected from loss, theft or misuse. The PCE Chief Financial Officer and Treasurer or his/her designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the GASB (Governmental Accounting Standards Board.) As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part of management's program of monitoring internal controls.

CUSTODY OF SECURITIES

All securities owned by PCE except time deposits and securities used as collateral for repurchase agreements, will be kept in safekeeping by a third-party bank's trust department, acting as an agent for PCE under the terms of a custody agreement executed by the bank and PCE. All securities shall be held in PCE's name.

All securities will be received and delivered using standard delivery versus payment

procedures.

PERFORMANCE STANDARDS

PCE's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs. Investment performance will be calculated on a gross basis before fees and expenses and tracked monthly for internal use and monitoring. The benchmark for "market-average rate" shall be the rate of return of an appropriate market-based index which has a duration or weighted average maturity similar to that of the PCE's portfolio, against which portfolio performance shall be compared on a regular basis. Performance will be benchmarked to the appropriate performance index. It is PCE's goal to meet or succeed the performance benchmark on a quarterly and annual basis. Currently, the benchmark used for comparison purposes is the Lipper 30-Day Money Market Index.

REPORTING

The Chief Financial Officer will provide a quarterly investment report to the PCE Audit & Finance Committee showing all transactions, type of investment, issuer, purchase date, maturity date, purchase price, yield to maturity, total return, performance benchmark, and current market value for all securities. An annual investment report shall be provided to the PCE Board of Directors in the month following the end of PCE's fiscal year. The Treasurer will provide monthly reports to the Board as required by Government Code 53607.

POLICY REVIEW

This Investment Policy will be reviewed at least annually to ensure its consistency with:

1. The California Government Code sections that regulate the investment and reporting of public funds.
2. The overall objectives of preservation of principal, sufficient liquidity, and a market return.
3. Performance of investment advisor(s) against the appropriate benchmark.

Approved by Board of Directors on _____

Janis Pepper, Chief Executive Officer

Andrew Stern, Chief Financial Officer

Glossary

Asset Backed Securities (ABS) are securities backed by loans or receivables on assets other than real estate. ABS can be secured by a variety of assets including, but not limited to credit card receivables, auto loans, and home equity loans.

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificates Of Deposit

1. **Negotiable Certificates of Deposit** are large-denomination CDs. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.

Collateral refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Demand Deposits are funds held that can be withdrawn at any time without advance notice to the institution holding the funds.

Duration is a measure of the sensitivity of the price of a security or a portfolio of securities to a change in interest rates, typically stated in years.

Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$65 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Local Government Investment Pools (LGIP) are investment tools similar to money market funds that allow public entities to invest funds.

Market Value is the price at which a security is trading and could presumably be purchased or sold.

Maturity is the date upon which the principal or stated value of an investment becomes due and payable.

Money Market Fund is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders. Eligible money market funds must strive to maintain a stable net asset value (NAV) of \$1 per share.

Net Asset Value (NAV) is the value of an entity's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the U.S. Securities and Exchange Commission are redeemed at their net asset value. Money Market funds that PCE is authorized to invest in are required to maintain an NAV of \$1.00 at all times.

Par Value is the face value of the bill, note, or bond.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Repurchase Agreements are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

Total Return is the time-weighted performance of a portfolio including interest income and any capital appreciation or depreciation as a result of interest rate movements.

U.S. Treasury Issues are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

1. **Treasury Bills** which are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve month maturities.
2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.

Yield to Maturity is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.