



# Audit & Finance Committee Meeting

October 16, 2023



# Investment Management and Investment Policy Discussion

# Context and Current Status

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## Cash and Investment Management

- Cash Balances have grown significantly
- In response to financial turmoil in early 2023, the A&F Committee directed that Staff quickly diversify to other institutions
  - Added Fidelity - Institutional Money Market Fund
  - Added Schwab - Institutional Money Market Funds
- Current holdings of more than 20% of assets held in money market funds are out of compliance with:
  - Investment Policy #19
  - California Government Code

# Cash/Investment Balances – Current Summary

## As of August 31, 2023

Institution	Amount	Investment Mix
Fidelity	\$71.1 million	Fidelity Institutional Money Market Government Portfolio
First Republic (Operating)	\$30.8 million	Cash
Schwab	\$57.2 million	Schwab Treasury Obligations Money Fund
US Bank (as Custodian)	\$125.2 million	Cash and Fixed Income Portfolio <ul style="list-style-type: none"> <li>• PFM - \$64.7 million</li> <li>• FRB - \$60.4 million</li> </ul>
<b>Total</b>	<b>\$284.3 million</b>	

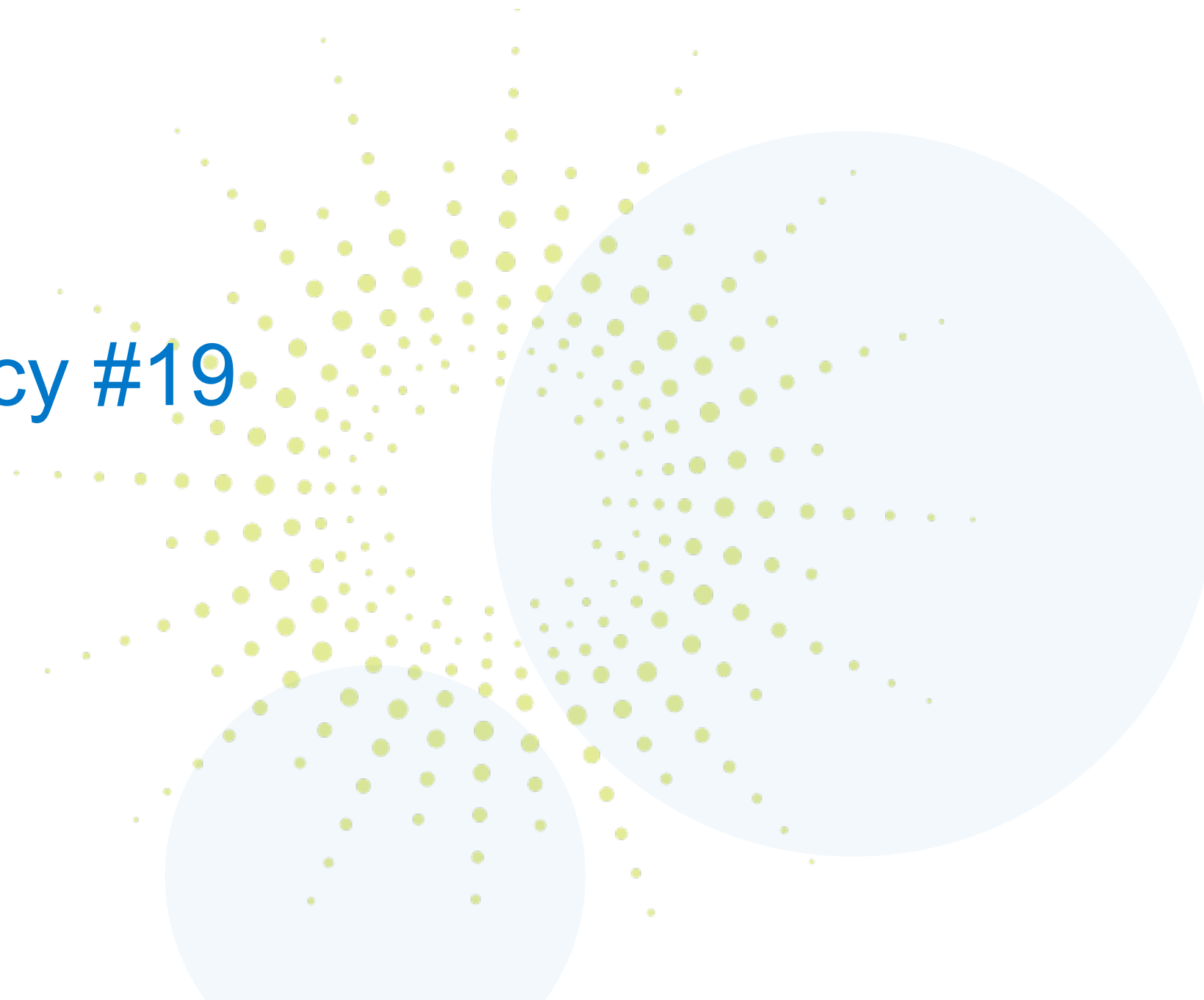
# Areas to Discuss/Evaluate

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- Revisions to Investment Policy
- Reduction in number of institutions
- Limitations on amounts in each institution
- Implementation of investment management with other money managers
  
- At the end of this presentation, we will be looking for direction on:
  - Investment management structure
  - Allocation of funds
  - Limitations on funds managed by any investment manager
  - Continue ESG?
  - Direction on Board resolution
    - Board action?
    - If so, consent or regular agenda?



# Investment Policy #19 (ACTION)



# Revisions to Investment Policy #19

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## Resolution:

*The Audit and Finance Committee recommends that the Board approve and adopt the revised Investment Policy.*

# Summary of Proposed Revisions to Investment Policy #19

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Senate Bill 1489, effective on January 1, 2023, made changes to the California Government Code

- In response to the new Code language, changes are proposed related to the Policy's Acceptable Investment Instruments section to address changes related to forward settlement.
- In response to the new Code language, changes are proposed related to the Policy's Maturity Limit section to address changes related to calculating a security's term to maturity.
- In response to the new Code language, changes are proposed related to the Policy's Reporting section

Based on the recommendation of multiple investment managers, it is proposed that two additional investment types be added to the Policy's Acceptable Investment Instruments section to improve diversification and provide return enhancement

- Allow for investment in supranationals (Code §53601(q)), and
- Allow for investment in asset-backed securities (Code §53601(o)).

For the above 2 types of instruments, the proposed language in the Policy matches Code language, except

- there is a 5% issuer limit on these investment types
- Code has no issuer limit.



# Revisions to Investment Policy #19

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## Resolution:

*The Audit and Finance Committee recommends that the Board approve and adopt the revised Investment Policy.*

# Potential Revisions to Cash and Investment Management Structure (Discussion)

# Areas to Discuss/Evaluate

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- ~~Revisions to Investment Policy~~
- Reduction in number of institutions
- Limitations on amounts in each institution
- Implementation of investment management with other money managers

# Organizations

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- Current

- Fidelity
- First Republic Investment (JP Morgan Asset Management)
- PFM Asset Management
- Schwab

- New Potential Options

- CAMP
- Chandler Asset Management

# Fidelity

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- Current
  - \$71.1 million in Institutional MMF Government Portfolio
- Status:
  - Not registered to offer investment management to government entities
  - Current MMF holdings exceed policy and Code thresholds
- Recommendation:
  - Eliminate from consideration and transfer funds elsewhere

# First Republic Investment Management

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- Current Investment Manager
  - \$60.4 million in actively managed fixed income portfolio
  - Recently acquired by JP Morgan Chase
  - Soon to be JP Morgan Asset Management
  - JPMorgan's fees are significantly higher
  - Have agreed to honor FRB's fees to PCE
  - At \$75 million – fees are \$117,000 per year
  - Current structure does not enable ESG overlay management and analysis, but they try to comply with PCE's expectations

# PFM Asset Management

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- Current Investment Manager
  - \$64.7 million in actively managed fixed income portfolio
  - Acquired by US Bank in 2022
  - At \$75 million – fees are \$62,500 per year
  - Currently managing portfolio subject to ESG Addendum using Sustainalytics for extra fee of 0.015% per year - \$11,250 on \$75 million portfolio

# Schwab

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- Schwab has proposed participation in Wasmer Schroeder Strategies
  - Schwab Asset Management provides portfolio management
  - Fund descriptions – can't guarantee that investments will always comply with Code
  - Fees are very high compared to others
    - In excess of \$250,000 for \$75 million portfolio



# Chandler

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- Potential Investment Manager
  - 2<sup>nd</sup> place when PCE evaluated managers in early 2020
  - Primarily focused on cash management for public agencies and municipal governments
  - \$33.5 billion under management
  - At \$75 million – fees would be \$60,000 per year
  - Representative clients
    - Marin Clean Energy
    - City of San Mateo (reference provided)
    - City of South San Francisco (reference provided)
    - Santa Clara County
  - ESG
    - Prepared to also manage with ESG overlay using S&P Metrics and Analysis - 0.01% per year
    - At \$75,000, that is an additional \$7,500/year
    - Would need to create addendum specific to Chandler's ESG management

# CAMP – California Asset Management Program

## Portfolio Statistics

Weighted Avg Maturity	33 days
Current Seven-Day Yield	5.54%

## CAMP'S OBJECTIVE:

To earn a competitive rate of return while preserving principal, providing liquidity, and seeking a stable net asset value (NAV) of \$1.00.

## Pool Highlights

- AAAM rated (by Standard & Poor's)
- Same-day liquidity (11:00 a.m. PST cut-off)
- Unlimited transactions via wire, ACH, or check
- Online account management
- Option to open multiple sub-accounts
- No minimum investment
- Interest paid monthly
- Zero out-of-pocket expenses
- Specialized services for bond proceeds

# Pooled Investment Comparison

Features of each pool vary depending on the type of investments selected and should be carefully reviewed before investing.

	<b>CAMP</b> <sup>1</sup> <i>Established in 1989</i>	<b>LAIF</b> <sup>2</sup> <i>Established in 1977</i>
<b>Valuation of NAV</b>	Daily	Monthly
<b>S&amp;P Rating</b>	AAAm	Not Rated
<b>Weighted Average Maturity</b>	33 Days	251 Days
<b>Interest Payment Frequency</b>	Monthly	Quarterly
<b>Investment Limit</b>	10% of the beneficial interest in the Pool	\$75 million per account

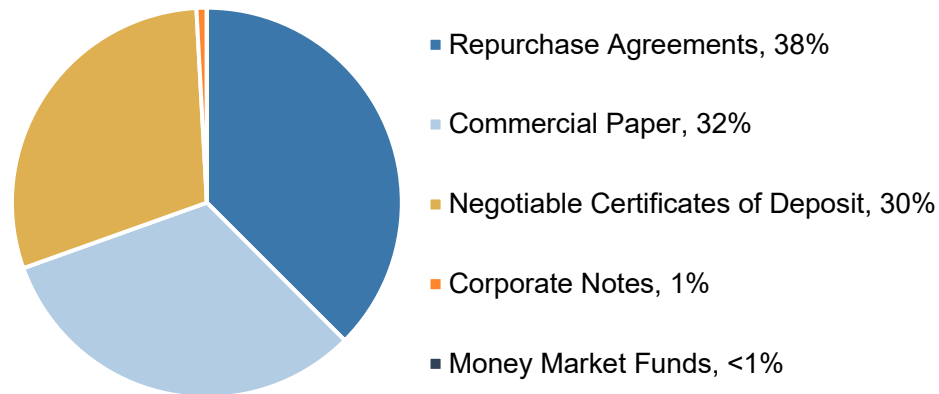
1. Source: CAMP website. As of July 31, 2023. Please see important disclosures at the end of this presentation.

2. Source: LAIF website. Weighted average maturity is as of July 31, 2023.

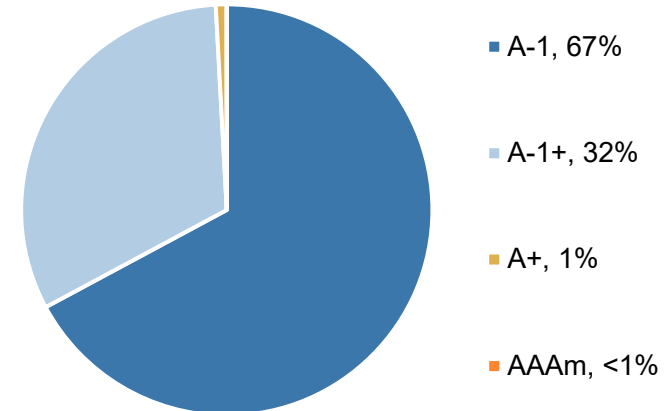
# CAMP Cash Reserve Portfolio Characteristics as of July 31, 2023

<b>Total Fund Net Assets<sup>1</sup></b>	\$14,112,603,477	<b>Weighted Average Maturity</b>	33 Days
<b>Current 7-Day Yield<sup>2</sup></b>	5.43%	<b>Net Asset Value per Share</b>	\$1.00

## Sector Composition



## Credit Quality<sup>3</sup>



Percentages may not total to 100% due to rounding.

1. Total fund net assets, portfolio holdings valued at amortized cost, trade date based.
2. The current seven-day yield, also known as the current annualized yield, represents the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical account with a balance of one share (normally \$1.00 per share) over a seven-day base period expressed as a percentage of the value of one share at the beginning of the seven-day period. This resulting net change in account value is then annualized by multiplying it by 365 and dividing the result by 7. Past performance is no guarantee of future results. Yields will fluctuate as market conditions change. The current fund performance may be higher or lower than that cited. Updated monthly.
3. Ratings by Standard & Poor's.

# Investment Management Options

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- A. Keep PFM and FRB (now JP Morgan/Chase), add CAMP
- B. Keep PFM, add Chandler, add CAMP
- C. Expand PFM, add CAMP

# Investment Management Allocation Proposals

Option	Entity	Initial Allocation	Notes
A	PFM	\$80 million	
	FRB	\$80 million	
	CAMP	\$100 million	Will be reduced by Surplus Funds Decisions
	Operating Account	\$30 million +/-	Target approximately 1 month of expenses
	Approximate Total	\$290 million	
	Ongoing		CAMP target of \$50 million, then 50/50 PFM and FRB

# Investment Management Allocation Proposals

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B	PFM	\$80 million	
	Chandler	\$80 million	
	CAMP	\$100 million	Will be reduced by Surplus Funds Decisions
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	Approximate Total	\$290 million	
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# Investment Management Allocation Proposals

Option	Entity	Initial Allocation	Notes
C	PFM	\$160 million	
	CAMP	\$100 million	Will be reduced by Surplus Funds Decisions
	Operating Account	\$30 million +/-	Target approximately 1 month of expenses
	Approximate Total	\$290 million	
	Ongoing		CAMP target of \$50 million, then to PFM



# A&F Committee Direction

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- Investment management structure
- Allocation of funds
- Limitations on funds managed by any investment manager
- Continue ESG?
  - PFM - \$11,250 per year (at \$75 million)
  - Chandler - \$7,500 per year (at \$75 million)
- Direction on Board resolution
  - Board action?
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# Audited Financial Statements FY2022-2023 (ACTION)



# Audited Financial Statements – FY2022-2023

Resolution :

*The Audit and Finance Committee recommends that the Board approve the audited financial statements for Fiscal Year 2022-2023*

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# Committee Members' Reports

# Adjournment

