



## Regular Meeting of the Audit and Finance Committee of the Peninsula Clean Energy Authority (PCEA) Minutes

Monday, September 11, 2023  
8:30 a.m.  
Zoom Video Conference and Teleconference

### **CALL TO ORDER**

Meeting was called to order at 8:41 a.m. in virtual teleconference and in the Peninsula Clean Energy Authority lobby.

### **ROLL CALL**

#### **Participating:**

Donna Colson, Burlingame  
Carlos Romero, East Palo Alto  
Leslie Ragsdale, Hillsborough  
Jeff Aalfs, Portola Valley  
Marty Medina, San Bruno, arrived at 9:31 a.m.

**Absent:** None

**A quorum was established.**

### **PUBLIC COMMENT**

None

### **ACTION TO SET AGENDA AND TO APPROVE CONSENT AGENDA ITEMS**

**MOTION:** Director Aalfs moved, seconded by Director Ragsdale to set the Agenda.

**MOTION PASSED:** 4-0 (Absent: San Bruno)

JURISDICTION	BOARD MEMBER	YES	NO	ABSTAIN	ABSENT
Burlingame	Director Colson	X			
East Palo Alto	Director Romero	X			
Hillsborough	Director Ragsdale	X			
Portola Valley	Director Aalfs	X			
San Bruno	Director Medina				X
	Totals	4			1

### **REGULAR AGENDA**

1. Chair Report

None

## 2. Staff Report

Andy Stern, Interim Chief Financial Officer, provided an update to the Committee on the audit update and the audit schedule, including an offer for 2 Committee Members to join in a meeting with the auditors.

## 3. Investment Management and Investment Policy Review (Discussion)

Andy Stern, Interim Chief Financial Officer, gave a presentation including content and the status on cash and investment management, including the status relative to Peninsula Clean Energy (PCE) Investment Policy 19, noting PFM has helped PCE write their last investment policy when they went to an investment management firm, and Monique Spyke from PFM will provide a slide presentation.

Andy described investments with Schwab and Fidelity which have been added, with the bulk in money market institutional funds which exceeds the 25% maximum investment policy as well as exceedance in the up to 10% policy in any one money market fund. He is looking for input from the committee about revisions to the investment policy, whether they want a reduction in the number of institutions, whether they want limitations on amounts with any one institution, and noted \$125 million is actively managed by PFM and First Republic, and they could broach Fidelity and Schwab to do the same thing as PFM and First Republic.

Chair Colson asked for clarification on the 10%. Andy explained that that with a total cash/investment balance of \$266 million, it is hard to argue that Fidelity and Schwab are not over the 10% rule.

Monique Spyke, PFM Asset Management, gave a presentation on Peninsula Clean Energy's investment portfolio, with a market value portfolio of about \$241 million which does not include the operating accounts at First Republic. She discussed securities at 51% of the total, money market fund allocation at 49%, noting they are limited by the California Government Code Section 53601-L which states money market fund investments are limited to 20% of the portfolio. She then spoke about the money market fund breakdown, the limitation for PCE of 10% per fund which is an additional restriction they have flexibility to change,

Chair Colson added that if they have an actively managed portfolio, Peninsula Clean Energy did not want the money manager to use more than 10%, noting that the 10% policy was around the actively managed portfolios and not PCE's pool portfolio.

Monique suggested that the 10% restriction can be removed on money market funds to give more flexibility if PCE decides to use money market funds as a place to hold larger sums of cash outside of the portfolios. The asset managers also have guidance around their use of money market funds, whether it be the duration strategies are longer or others. The reason they broke this out by dollar value is so PCE can see where the opportunity set is to move cash. The two funds out of compliance are Fidelity and Schwab because there are large sums of cash there.

Andy added the biggest Local Government Investment Pool (LGIP) is the County pool and they would not let PCE in as they did not want to expand any longer.

Chair Colson asked why it must be a ladder portfolio and not actively managed. Andy explained that these have been used interchangeably and referred to them as being used as multiple term investments. Andy shared that at the same time in the Surplus Funds Committee Meeting there

is an expectation currently that \$20 to 30 million will come out of the \$70 million allocation in the form of a rebate or something similar.

Monique added that the California Asset Management Program (CAMP) is an option. PFM is the investment advisor and government administrator for CAMP. They would not charge any fees associated with any funds PCE would have in CAMP. The current yield is 5.54% so it is the highest among all options described and they have been the highest levels they have been in the past 15 years.

Chair Colson asked where risk is being added to yield higher returns. Monique explained that the funds are in government funds, with additional yield because they can use commercial paper and other investments. CAMP is restricted to CA Government Codes.

Chair Colson asked if there is a BOD for CAMP. Monique confirmed that PFM is hired by CAMP which has a BOD which oversees the program and higher advisors. Chair Colson asked about the fees. Monique explained there are no fees to join and are incorporated into the yield. CAMP has overnight liquidity and noted that Silicon Valley Clean Energy uses CAMP.

Chair Colson asked if yields drop, they will depreciate the value, so they would make up some of the losses they have experienced when the yields rose. Monique confirmed and concluded her options for the \$70 million and she can next talk about the investment policy changes.

Chair Colson shared that the options are asset allocation reduction and decide if we want to move to a fund or an actively managed portfolio, and how many managers they want. They have PFM, First Republic which is a separate legal entity, and 2 money market Schwab accounts. Chair Colson shared she thinks PCE would want to reduce, change the structure, or they can consolidate.

Shawn Marshall, Chief Executive Officer, asked if they need to maintain Schwab and Fidelity. Chair Colson said she thinks the question is how many managers PCE should have. Director Aalfs noted Schwab and Fidelity are not actively managed. Chair Colson shared that they are actively managed, though not in particular for PCE. Shawn noted that once the allocation is figured out, the question is whether PCE needs 4 actively managed accounts.

Director Ragsdale asked how the custodial account at US Bank works. Chair Colson explained that US Bank makes sure securities are held in Peninsula Clean Energy's name. PCE always has a direct relationship with the bank to freeze accounts and hire a new manager.

Public Comments: None

Andy noted PFM is a subsidiary of US Bank and if they do not like PFM, they can hire a paper money manager with funds still held at US Bank.

Director Romero asked if Peninsula Clean Energy were to move money into CAMP if it would be managed by PFM. Monique explained that CAMP has a 3<sup>rd</sup> party custodian which is also US Bank, so PFM is not holding any of the assets and they could not move money in and out of CAMP. Because PFM is the program administrator of CAMP, they can do consolidated reporting, see CAMP balances, and take that into account for compliance purposes, but they would never be able to move funds.

Chair Colson asked what would be the benefit of having CAMP and CAMP-M as an active manager. Monique explained that PCE knows their process, they think PCE is confident in their

ability to manage assets, there is consolidated reporting, and they have the ability to see CAMP accounts.

Chair Colson said their overall philosophy will be similar between PCE's actively managed portfolio and the CAMP portfolio. She thinks the environmental, social, and governance (ESG) would be slightly different. Monique said the ESG overlay is not necessarily applicable to the CAMP portfolio.

Chair Colson clarified that if they put it in CAMP, they cannot have the ESG overlay and they may not want to. Andy added that PFM has a robust ESG management and oversight. The First Republic site does not. They have asked First Republic not to invest in energy-related stocks or bonds, but they do not have the same level of ESG overlay.

Chair Colson said she is trying to explain the difference between the pooled CAMP account and PCE's. To her, they would either consolidate and have one or the other, so she does not understand why they would have both accounts. Andy shared they do not have fees on them, and right now Staff does not have to keep track of them, but they do with Fidelity and Schwab.

Director Romero shared that he thinks there are benefits to CAMP, but it may be a hassle for Staff. Andy explained it is no more hassle than having Fidelity and Schwab the way they are set up now. Director Romero shared that CAMP has had decent performance, but suggested looking at this more seriously.

Chair Colson said she is assuming that PFM has an investment philosophy. Monique shared that what is the same between the CAMP portfolio and the PCE portfolio is their credit philosophy which does not change. The CAMP program is a very short duration fund. The maximum maturity is 60 days. It is an overnight investment pool and managed very differently.

Chair Colson said personally, as much as she likes the CAMP fund, she would like someone actively managing this the fund. Monique said she would advise it is time to move funds, and there are also options to join CAMP as an investor and where you have no say over what goes on, or joint as a participant where you are able to vote on the Board of Trustees or investment policy changes and things like that. Chair Colson said she would likely not suggest that given how small they are.

Director Aalfs said they could ask Fidelity and Schwab to be active money managers, and Chair Colson said yes. Most likely what they would do is they might pull out their securities and set them up into a separate account so they would not have transaction fees.

Director Romero asked if PCE can keep First Republic Bank. Chair Colson explained you could use CAMP with First Republic Bank because their operating account is there and put \$20 million in there, and she would use PFM for actively managed piece as a secondary overlay.

Chair Colson added that they can keep First Republic Bank's actively managed team. Her issue is that she has been working with them a lot and she thinks the bankruptcy destroyed a lot of wealth in that organization, and they did not do a great job managing the whole Silicon Valley problem. They were actively talking with their internal people but did not do a good job of stemming the problem, and they were overleveraged at that bank so she worries about the lack of stability at that organization as they transition over to Chase. Her choice would be Fidelity because Schwab is a different entity.

Chair Colson shared that they should do no more than 3 organizations other than operating banks. Director Romero agreed, but he asked if Staff would feel overburdened with 4 organizations. Andy shared that this is not overburdensome.

Chair Colson asked Andy to check on options and highlight restrictions on the CAMP, what fees would look like, yields, and understanding costs.

Public Comments: None

Shawn Marshall referred to the CFO interview process, and she is personally in favor of fewer than 4 organizations. She thinks the CFO should wear multiple hats because they have such a small team. The CFO will really have to understand the breadth and depth of this, and right now, she would be in favor of fewer than 4 organizations.

Chair Colson said if it is set in a way where there is 280 of cash on hand, it is untouchable. The question is one or two managers, and then taking the overage of \$70 million or whatever it is and putting it in a CAMP fund, which is a short-term duration, less volatility, unlikely to have huge changes.

Monique continued the presentation with the Peninsula Clean Energy investment policy review, given changes in the Government Code.

Chair Colson asked for a super national example, and Monique shared this would be World Bank. Andy asked why they decided not to include it, and Monique said it was not clear that all managers would be able to properly investigate or monitor for these investments.

Chair Colson asked if PFM feels comfortable working with them, and Monique confirmed and said PFM has a separate committee for asset backed securities.

Monique added that they will use the 10% money market in the policy, and this is something they could strike if needed.

Chair Colson said she thinks this will be Board level decisions, appreciates the opportunity to work with PFM, said Monique has been a great partner, and they all appreciate her guidance and the opportunity to work with her.

#### 4. Committee Members' Reports

None

### **ADJOURNMENT**

The Meeting was adjourned at 9:50 a.m.