



# Audit & Finance Committee Meeting

Special Meeting

September 11, 2023

# Chair Report



# Staff Report



# Staff Report

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## Audit

- Audit Update
  - Continuing audit activities
  - Picienti & Brinker
- Audit Schedule - **on schedule**
  - October 16 - Target for Audit & Finance Committee to review draft audit financials
  - October 26 – Target for Board of Directors approval of Final Audited Financials



# 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, directive to quickly diversify to other institutions
  - Added Fidelity
  - Added Schwab
- Invested in Money Market Institutional Money Market Funds at both
- Current Status relative to Investment Policy #19
  - Total investment in Money Market Funds exceeds 20% maximum policy
  - Investment in each Money Market Fund exceeds 10% maximum policy
- Some of PCE's portfolio is actively managed by PFM and First Republic

# Cash/Investment Balances – Summary

As of July 31, 2023

Institution	Amount	Investment Mix
Fidelity	\$60.8 million	Fidelity Institutional Money Market Government Portfolio
First Republic (Operating)	\$23.4 million	Cash
Schwab	\$56.9 million	Schwab Treasury Obligations Money Fund
US Bank (as Custodian)	\$124.9 million	Cash and Fixed Income Portfolio <ul style="list-style-type: none"><li>• PFM - \$64.6 million</li><li>• FRB - \$60.3 million</li></ul>
Total	\$266.0 million	

# 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 laddering) with other money managers



# PFM Assisted with Most Recent Investment Policy Changes

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- Asked Monique Spyke to walk the AF Committee through where we are and what changes PFM would recommend.
- PFM provided
  - Redline to PCE's current Policy #19 reflecting the changes that will be presented here
  - Memo summarizing the changes – will be distributed to Committee after this meeting

# PCE Portfolio Allocation Discussion

Monique Spyke, PFM Asset Management LLC

September 11, 2023

415.393.7259

| [pfmam.com](https://pfmam.com)

*PFM Asset Management LLC*

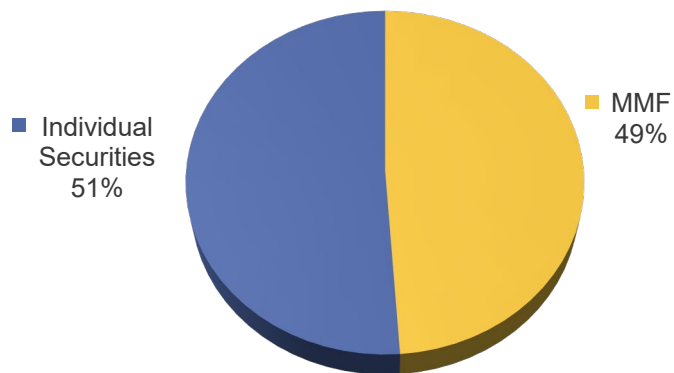
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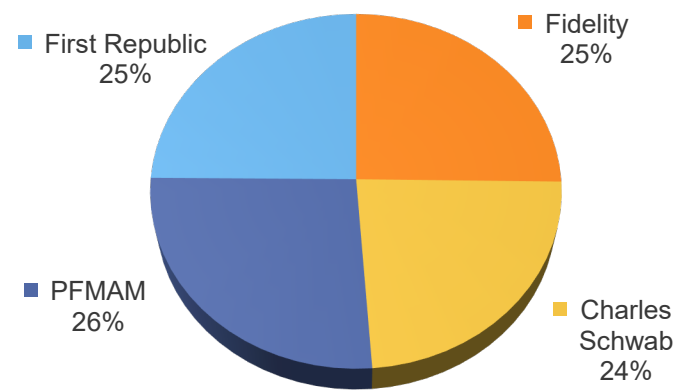
# PCE Investments as of July 31, 2023

Sector	Market Value	% of Portfolio	Permitted by Policy	Permitted by CA Government Code
Money Market Funds	\$117,850,687	49%	20%	20%
U.S. Treasuries	\$76,858,560	32%	100%	100%
Corporate Notes	\$31,837,771	13%	30%	30%
Municipals	\$6,345,403	3%	20%	100%
Agency MBS	\$5,054,746	2%	100%	100%
Federal Agencies	\$1,789,894	1%	100%	100%
Negotiable CDs	\$1,335,257	<1%	20%	30%
<b>Total</b>	<b>\$241,072,319</b>	<b>100%</b>		

Core/Liquidity Allocation



Allocation by Advisor



Data as of July 31, 2023. Includes funds invested with PFMAM, First Republic Bank, Charles Schwab, and Fidelity. PCE Investment Policy dated May 28, 2020. California Government Code Section 53601.

# PCE Money Market Fund Allocation

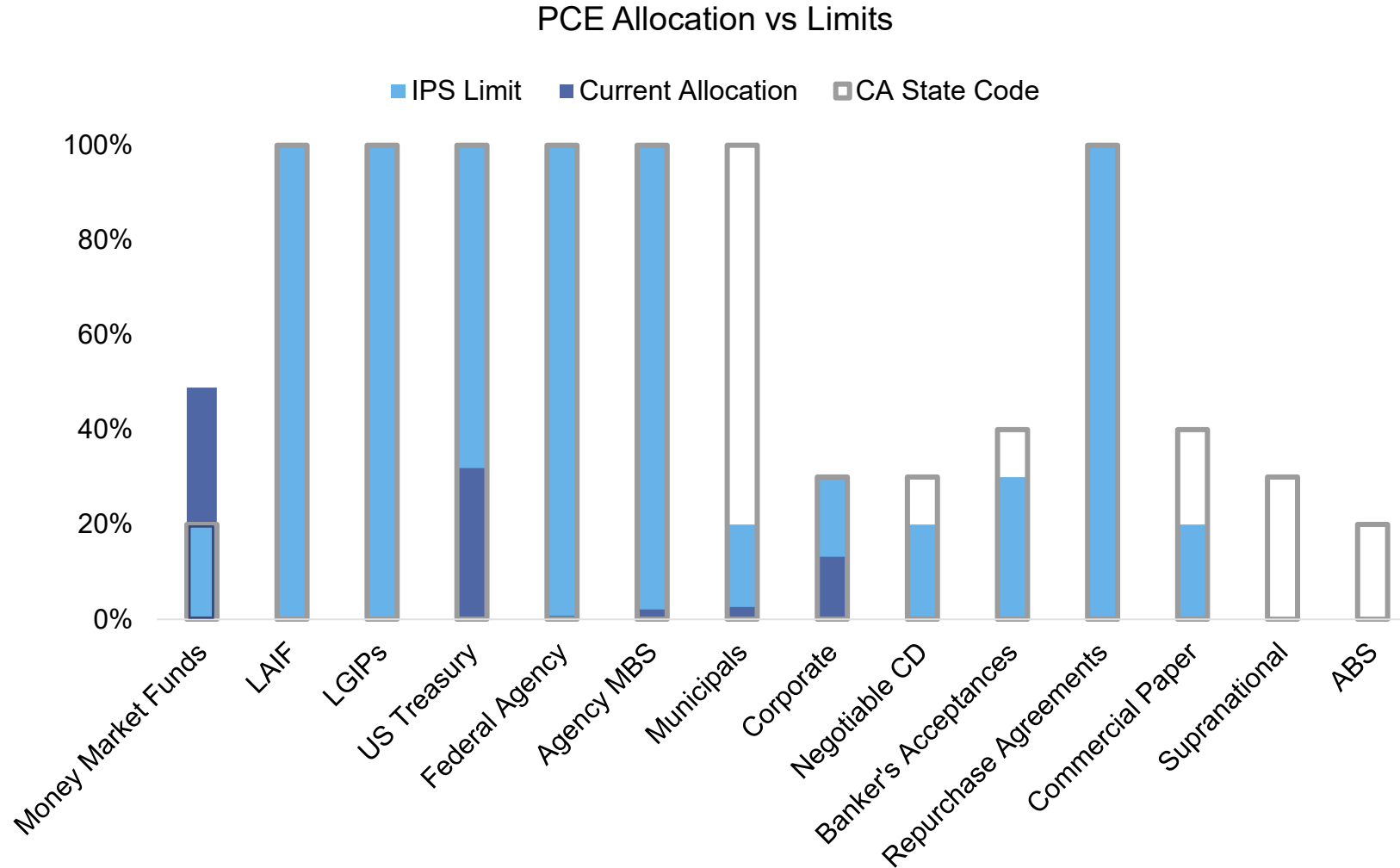
- ▶ Code and PCE's Investment Policy places a 20% sector limit on money market funds.
- ▶ PCE places a 10% limit on investment in any one fund.
  - ▶ Code does not have a fund limit on individual money market funds.

Sector	Current Market Value	% of Portfolio	Permitted by Policy	Permitted by Code
Money Market Funds	\$117,850,687	48.9%	20%	20%
<b>Fund</b>				
Fidelity FIMM Government Portfolio	\$50,727,821	21.0%	10%	20%
Schwab Treasury Obligation MMF	\$46,944,854	19.5%	10%	20%
Fidelity Govt Money Market Fund	\$10,051,483	4.2%	10%	20%
Schwab Govt MMF	\$10,001,169	4.1%	10%	20%
First American Govt Obligations Fund	\$125,360	0.1%	10%	20%

*Data as of July 31, 2023. Includes funds invested with PFMAM, First Republic Bank, Charles Schwab, and Fidelity.  
PCE invested policy dated May 28, 2020. California Government Code Section 53601.*



# PCE Allocation versus Policy and Code Limits



Data as of July 31, 2023. Includes funds invested with PFMAM, First Republic Bank, Charles Schwab, and Fidelity.  
PCE invested policy dated May 28, 2020.



# Achieving Policy/Code Compliance

Sector	Current Market Value	% of Portfolio	Permitted by Policy	Maximum Allowed	Amount to Move
Money Market Funds	\$117,850,687	48.9%	20%	\$48,214,464	\$69,636,223
Fund					
Fidelity FIMM Government Portfolio	\$50,727,821	21.0%	10%	\$24,107,232	\$26,620,589
Schwab Treasury Obligation MMF	\$46,944,854	19.5%	10%	\$24,107,232	\$22,837,622

- ▶ Options to move portfolio back into compliance
  1. Maintain allocations of liquidity and core – transfer at least \$69.6 million from the money market funds into other overnight vehicles: LAIF, CAMP, bank accounts, etc.
  2. Increase allocation to core portfolio
    - transfer at least \$69.6 million to PFMAM and/or First Republic Bank to purchase individual securities; or
    - Establish laddered investment portfolio with Schwab and/or Fidelity and transfer assets from money market funds



# Overnight Investment Option - LGIP

## California Asset Management Program (CAMP)

### 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

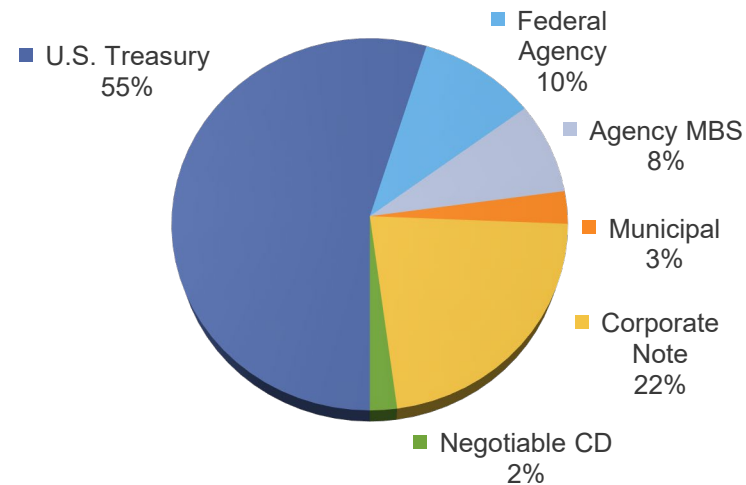
*Weighted average maturity as of 7/31/2023. Current seven-day yield as of 8/29/2023. The current seven-day yield, also known as the current annualized yield, represents the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical account with a 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 seven. 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.*

# PFMAM Managed Portfolio Snapshot

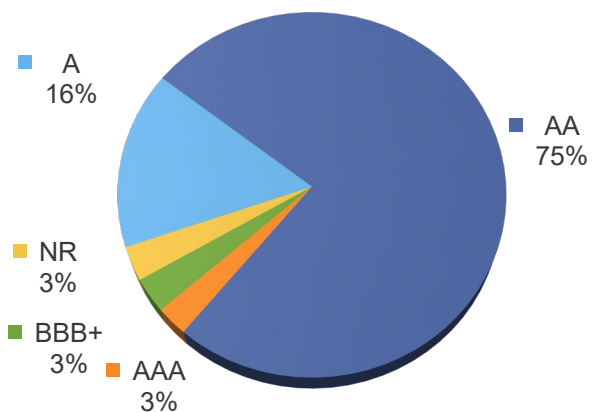
## Portfolio Statistics as of July 31, 2023

Market Value	\$63,631,285
Yield at Cost	2.33%
Yield at Market	4.81%
Duration	2.51

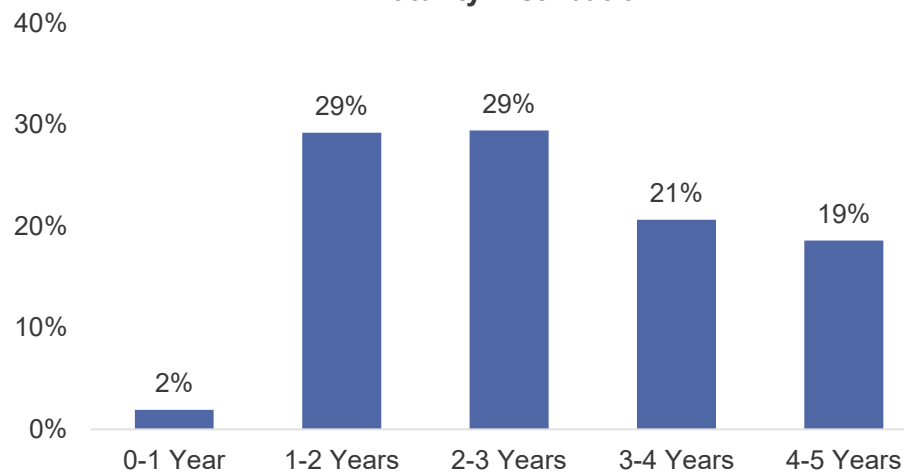
## Sector Allocation



## Credit Quality (S&P Ratings)



## Maturity Distribution



Source: PFMAM. Market value includes accrued interest.



## Summary of Investment Policy review recommendations:

- ▶ Address changes to California Government Code
  - ▶ Add language on forward settlement (SB 1489, effective 1/1/23) – Policy section *Acceptable Investment Instruments*
  - ▶ Add language on calculating a security's term to maturity (SB 1489, effective 1/1/23) – Policy section *Maturity Limit*
  - ▶ Add language on submittal schedule of quarterly reports, extended from 30 days to 45 days (SB 1489, effective 1/1/23) – Policy section *Reporting*
  - ▶ Delete language from commercial paper paragraph that was deleted from Code (SB 998, effective 1/1/21) – Policy section *Acceptable Investment Instruments*
- ▶ Consider expanding list of allowable investments to enhance diversification and return potential
  - ▶ Add language to allow for investment in supranationals (Code §53601(q)), and asset-backed securities (Code §53601(o)) – Policy section *Acceptable Investment Instruments*
  - ▶ The language we suggest matches Code language, except that we are recommending a 5% issuer limit on these investment types where Code has no issuer limit

## Disclaimer

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# Committee Members' Reports

# Adjournment

