



Office of the City Manager

CONSENT CALENDAR  
June 25, 2024

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Henry Oyekanmi, Director, Finance Department

Subject: FY 2025 Reaffirming the Investment Policy and Designation of Investment Authority

RECOMMENDATION

Adopt a Resolution reaffirming the Investment Policy (no revisions are recommended) and to confirm the delegation of investment authority to the Director of Finance to make investments for FY 2025.

FISCAL IMPACTS OF RECOMMENDATION

There are no fiscal impacts from accepting the revisions to the Investment Policy and renewing the delegation of authority to the Director of Finance to make investments.

CURRENT SITUATION AND ITS EFFECTS

**A. FY 2025 Reaffirming the City's Investment Policy**

The City's Statement of Investment Policies requires the City Council to annually reaffirm the Statement of Investment Policy.

**B. Delegating Authority to Make Investments**

The Investment Policy requires the City Council to annually confirm the delegation of investment authority to the Director of Finance.

BACKGROUND

The State statutes that govern investment activity requires the City Council to annually affirm the Investment Policy and to annually confirm the delegation of investment authority.

INVESTMENT OVERSIGHT

All investments included in the portfolio comply with the City's adopted investment policies and State law.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

The Investment Policy provides opportunities to make environmentally responsible investments that support the City’s environmental sustainability goals.

RATIONALE FOR RECOMMENDATION

The State requires City Council to annually affirm the Investment Policy, and to annually confirm the delegation of investment authority to the Director of Finance.

ALTERNATIVE ACTIONS CONSIDERED

None.

CONTACT PERSON

Henry Oyekanmi, Director, Finance, 981-7326

Attachments:

- 1: Resolution
2. Investment Policies for Idle Pooled Cash (Effective July 1, 2024)
3. Investment Policies for Retiree Medical Plan Trust Funds (Effective July 1, 2024)

RESOLUTION NO. ##,###-N.S.

AFFIRMING THE INVESTMENT POLICY AND RENEWING THE DELEGATION OF  
AUTHORITY TO MAKE INVESTMENTS TO THE DIRECTOR OF FINANCE

WHEREAS, by Resolution No. 70,899 -N.S. dated June 27, 2023, the City Council adopted the Investment Policy for the City of Berkeley; and

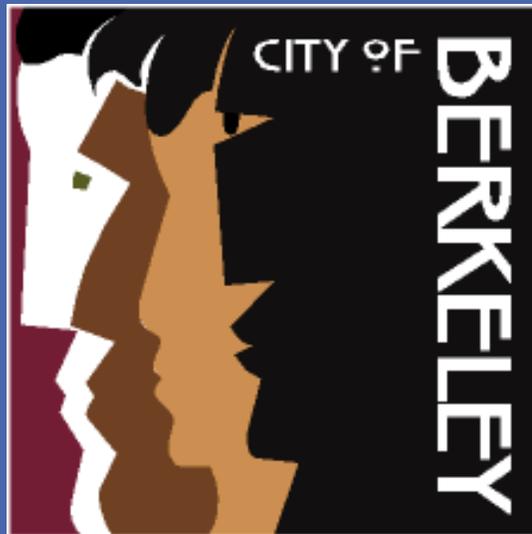
WHEREAS, the Statement of Investment Policies requires the Director of Finance to submit and make recommendations for amendments to the investment policy; and

WHEREAS, the Director of Finance has no recommendation or amendments to the investment policy to the City Council.

NOW THEREFORE, BE IT RESOLVED that the Council of the City of Berkeley that the Council affirms the Statement of Investment Policies, and confirms the delegation of investment authority to make investments to the Director of Finance for FY 2025.

Public

# City of Berkeley Investment Policy



*Effective July 1, 2024*

# City of Berkeley Investment Policy

July 1, 2024

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## I. Introduction

Pursuant to Sections 2.44.040 and 2.44.060 of the Berkeley Municipal Code, Resolution No. 45,087-N.S., and Sections 53601, 53607, 53636 and 53648 of the State Government Code, the Director of Finance, the Treasurer of the City, is authorized to make investments of the City's idle funds. The Code also directs the City to present an annual investment policy to the City Council for approval. This Investment Policy, after approval of the amendments by the City Council, will serve as the Investment Policy for the City of Berkeley for fiscal year 2019.

### A. Scope of Policies

These investment policies apply to the investments of the City of Berkeley and the Rent Stabilization Board. All financial assets of any non-trust funds, including the general fund and other funds that may be created from time to time, shall be administered in accordance with the provisions of these policies.

### B. Investment Objectives

The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

The following investment objectives, in order of priority, shall be applied in the management of City funds: safety, liquidity and yield.

#### 1. Safety of principal is the foremost objective of the investment program

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk, summarized as follows:

- a. Credit risk. This is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:
  - Limiting investments to the safest types of securities.
  - Determining the credit worthiness of the financial institutions, broker/dealers, and intermediaries with which the City does business.
  - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- b. Interest rate risk. This is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity; and
- Investing operating funds primarily in shorter-term securities.

## 2. **Liquidity**

No investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary markets (dynamic liquidity).

## 3. **Yield**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a reasonable return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- i. Liquidity needs of the portfolio require that the security be sold.
- ii. A security swap would improve the quality, yield, or target duration in the portfolio.

## 4. **Responsible Investing**

Investment policies of the City of Berkeley shall comply with the letter of the following ordinances, resolutions and directives:

- Nuclear-Free Berkeley Act
- Resolution No. 59,853-N.S.-Oppressive States Contract prohibition
- Divestment from Gun Manufacturers and Tobacco Companies
- Divestment from Publicly Traded Fossil Fuel Companies and Banks that Finance Pipelines and Fossil Fuel Infrastructure
- Divestment from Prisons Resolution No. 67,640-N.S. and Immigration Detention Companies
- Divest from Any Companies Designing, Building or Financing the U.S. – Mexico Border Wall Resolution No. 67,865-N.S.
- No Investment in Any Entity Involve in the Production and Manufacturing of Weapons-Resolution No. 68,766-N.S.
- Integrate Environmental, Social, and Governance Principles (ESG) for All Investment Decision Making Process (See Appendix B for details.)

a. **Nuclear-Free Berkeley Act**

To the extent possible, without compromising the City's safety, liquidity and yield objectives, it is the City's policy to prefer investments in U.S. Agency securities. They are preferred because of their generally higher yields and generally socially preferable uses, such as housing loans or student loans, versus investments in Treasury securities with their association with nuclear weapons.

All financial institutions, which hold deposits or investments of the City, shall file a statement with the Director of Finance indicating the percentage of the bank's assets which are loaned to or invested in nuclear weapons agents as defined in Section 12.90 of the Nuclear-Free Berkeley Act. The Director of Finance shall use this information as a factor in selecting banks which have minimum involvement in the nuclear weapons industry. A summary of these reports shall be attached to the annual Statement of Investment Policies.

- Investments in United States Treasury securities may be made by the City of Berkeley.
- The City of Berkeley shall ensure that any City funds, or any funds controlled by the City, invested or other third parties, are invested according to the provisions of this section and, to this end, shall obtain written assurances to this effect from any such trustees or third parties.

b. **Divestment From Publicly-Traded Fossil Fuel Companies and Companies that Provide Direct Financing or On-going Lines of Credit for the Funding of Fossil Fuel Infrastructure**

The City of Berkeley has a responsibility to protect the lives and livelihoods of its inhabitants from the threat of climate change. While fossil fuel companies provide an attractive return on investment, the City of Berkeley will suffer greater economic and financial losses from the impact of unchecked climate change. The City's infrastructure, businesses and communities would face greater risk of damages and losses due to that climate change. The City believes that its investments should support a future where all citizens can live healthy lives without the negative impacts of a warming environment. For the purposes of the Investment Policy, a "fossil fuel company" shall be defined as any of the two hundred publicly-traded companies with the largest coal, oil and gas reserves as measured by the gigatons of carbon dioxide that would be emitted if those reserves were extracted and burned, as listed in the Carbon Tracker Initiative's "Unburnable Carbon" report.

Staff responsible for managing the City's investment portfolio are directed to divest all City funds held in fossil fuel companies or companies that provide direct financing or on-going lines of credit for the funding of fossil fuel infrastructure such as the Dakota Access Pipeline and are prohibited from making any new investments in such companies.

**c. Divestment from Gun Manufacturers and Tobacco Companies**

The City of Berkeley has a responsibility to protect the lives and livelihoods of its inhabitants from the threat of dangerous weapons and products. There is no better role for city government than to protect people. If the City invests in companies that are putting dangerous weapons and dangerous products on our streets, then the City is part of the problem.

Staff responsible for managing the City's investment portfolio are directed to divest all City funds held in gun manufacturers and tobacco companies and are prohibited from making any new investments in such companies.

**d. Divestment from Prisons and Immigration Detention Companies**

The prison and immigration detention industry reaps large monetary benefits from the imprisonment of these communities. Prison companies admit that their companies benefit from high incarceration rates. With the increasing economic benefits that come with commodifying human lives, the City of Berkeley should divest from prison and immigration detention companies to make a statement that the industry harms human lives and degrades them as monetary investment.

Staff responsible for managing the City's investment portfolio are directed to divest all City funds held in Prisons and Immigration Detention Companies and are prohibited from making any new investments in such companies.

**e. Divestment from any Companies Designing, Building or Financing the U.S.-Mexico Border Wall - Resolution No. 67,865-N.S.**

The City of Berkeley is strongly opposed to the construction of a border wall between the United States and Mexico as called for in Presidential Executive Order 13767. Immigration has been part of this country's history since its inception. Construction of a border wall with tightened security will harm refugees who are feeling violence and conflict in Central American countries including Honduras and El Salvador. A border wall would increase international tensions and cause environmental damage by increasing emissions, cutting off natural water flows, and disturbing wildlife migration routes. The wall would cut through ancestral native lands and would significantly disrupt tribal communities. In addition, construction of a wall would be huge financial burden to taxpayers. Therefore, to ensure that local tax dollars in no way support the construction of the proposed border wall, the City of Berkeley will divest from all companies involved with designing, building, and financing the border wall.

Staff responsible for managing the City's investment portfolio are directed to divest all city funds from companies that design, build or finance the U.S.-Mexico border wall as called for in Presidential Executive Order 13767, and are prohibited from making any new investments in such companies.

**f. No Investment in Any Entity Involve in the Production and Manufacturing of Weapons-Resolution No. 68,766-N.S.**

The City of Berkeley joins the cities nationwide that oppose militarism and violence, and encourages other cities to follow Berkeley's lead. U.S. weapons manufacturers continue to supply repressive regimes around the world and U.S. produced weapons are being used in attacks that the international community deems unlawful for their disproportionate and excessive harm to civilians.

Staff responsible for managing the City's investment portfolio are directed to divest all City funds from companies that are involved in the production or manufacturing of weapons and weapons system, whether conventional or nuclear and including the manufacture of civilian arms.

These guidelines apply to all cash-equivalent assets included within the scope of the City's audited financial statements and held either directly by the City or held and invested by fiscal agents.

**g. Integrate Environmental, Social, and Governance Principles (ESG) for All Investment Decision Making Process (See Appendix B for details.)**

This combines environmental, social, and governance issues with traditional financial factors in the investment decision-making process. ESG investing helps cities like Berkeley to benefit from both impact driven and financially prudent investments. ESG principles would put Berkeley's values into our investment dollars.

**C. Use of State Investment Guidelines**

Government Code Sections 16481.2, 53601, 53607, 53635, and 53646 of the State of California regulate the investment practices. It is the policy of the City of Berkeley to use the State's provisions for local government investments as the base for developing and implementing the City's investment policies and practices.

As required under Government Code Sections 16481.2 and 53646, the Statement of Investment Policies will be reviewed by the Council annually.

## II. Investment Authority and Responsibilities

### A. Authorized Investment Officers

#### 1. Idle Funds

Pursuant to Sections 2.44.040, 2.44.060 of the Berkeley Municipal Code, Resolution No. 45,087-N.S., and Sections 53601, 53636 and 53648 of the State Government Code, the Director of Finance, the Treasurer of the City, is authorized to make investments of the City's idle funds. Responsibility for the operation of the investment program is hereby delegated to the Director of Finance, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this plan. Procedures should include references to: safekeeping, delivery versus payment basis of settling transactions, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts. In the exercise of this responsibility, the authority to perform specific investment tasks and duties is delegated as follows:

- Treasury Manager/Revenue Collection Manager. In the absence, and under the direction, of the Finance Director, to invest idle funds on a daily basis as required for cash flow purposes pursuant to the requirements of the Statement of Investment Policies.
- Senior Accountant or Accounting Manager. To execute necessary investment documents, and obtain the approval of the Director of Finance to authorize wire transfers and execute bank authorizations.
- Deputy City Manager. To execute necessary investment documents, authorize wire transfers; execute bank authorization in absence of the Director of Finance, Treasury Manager/ Revenue Collection Manager, Senior Accountant, and the Accounting Manager.

### B. Internal Controls

The Director of Finance shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Berkeley. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. These controls shall include:

- Separation of transaction authority from accounting and physical custody.

- By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- Also, securities purchased from any bank or dealer including appropriate collateral (as defined by State Law), shall be placed with an independent third party for custodial safekeeping.
- Avoidance of physical delivery of securities by using a delivery versus payment “Basis of Settlement Only.”
- All trades will be executed on a delivery versus payment (DVP) basis. This ensures that securities are delivered to the City’s safekeeping bank at the same time the funds are released by the City’s safekeeping bank.
- Third-Party custodial safekeeping of securities held in the name of the City. Delivered securities must be properly safeguarded against loss or destruction. Book entry securities are recorded in electronic records and the potential for fraud and loss increases with physically delivered securities. All investment securities, except collateralized certificates of deposit and money market funds, purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City-approved custodian bank, its correspondent New York Bank or the Depository Trust Corporation (DTC). Whenever possible, securities purchased are to be recorded in “book entry” form.
- All securities and applicable collateral will be held by the City’s third party custodian and evidenced by safekeeping receipts. All book entry securities owned by the City shall be evidenced by a safekeeping receipt issued to the City by the custodian bank to acknowledge that the securities are held in the Federal Reserve system in a “customer account” for the custodian bank which names the City as “customer”;

The Director of Finance will require each approved safekeeping financial institution to submit a copy of its Consolidated Report of Condition and Income (Call Report) to the City within 60 days after the end of each calendar quarter.

- Competitive bidding on investment transactions. Before the City invests in any secondary market funds, competitive bids shall be requested. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested from at least three financial institutions for instruments which meet the maturity requirement. If no specific maturity is required, a yield curve analysis will be conducted to determine which maturities would be most advantageous.
- Written confirmation and documentation of all financial transactions.

- Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.
- Rapid deposit of funds received by the City (i.e., large checks.)
- Bonding of all investment officials.

### **C. Evaluation of Investment Officer Actions**

Section 53600.3 of the Government Code identifies trustees as those persons authorized to make investment decisions on behalf of a local agency. As a trustee, the standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this plan.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

## **III. Capital Preservation and Risk**

### **A. Overview**

Some level of risk is inherent in any investment transaction. Losses may be incurred due to issuer default, market price changes, or technical cash flow complications such as investments in non-marketable certificates of deposit. Diversification of the City's portfolio by institution, investment vehicle, and maturity term is the primary tool available to the City in minimizing investment risk and capital losses by safeguarding the overall portfolio from any individual loss.

## B. Portfolio Diversification Practices

The following sections summarize the City's major portfolio diversification practices and guidelines in determining:

- Authorized Dealers
- Investment Vehicles
- Investment Maturity

Portfolio limitations included in these guidelines are to be based on the portfolio composition and investment management plan policies in effect at the time of placement; the actual composition of the City's investments may vary over time from plan limitations due to overall portfolio changes from when the individual placement was made as well as changes in the City's investment management plan

## IV. Eligible Financial Institutions

### A. Authorized Dealers

- Investments shall be purchased only through well-established, financially sound institutions. The Finance Director shall maintain a list of financial institutions and broker/dealers approved for investment. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions will be given a copy of the City's Statement of Investment Policies, and a return cover letter which must be signed indicating that the Statement of Investment Policies has been read and understood.

Qualified financial institutions and broker/dealers must supply the Director of Finance with the following:

- Financial Institutions
  - Current audited financial statements
  - Depository contracts, as appropriate
  - A copy of the latest FDIC call report or the latest FHLBB report, as appropriate.
- Broker/Dealers
  - Current audited financial statements
  - Proof that brokerage firm is a member in good standing with a national securities exchange.
- Except for repurchase agreements, investments shall be awarded based on competitive bids. Documentation relating to investment quotes shall be maintained by the Finance Department for a period of one year.

## **B. Individual Placement of Deposits**

Individual placement of negotiable, collateralized, and other time certificates of deposit with eligible financial institutions shall be based on the following practices and procedures:

- Deposits shall only be placed with financial institutions maintaining offices within the City of Berkeley.
- Unless collateralized by eligible securities as provided in Sections 53651 and 53652 of the Government Code, the maximum amount of Certificates of Deposit to be placed with any single institution is \$250,000.

## **V. Investment Vehicles**

### **A. State of California Limitations**

As provided in Sections 53601, 53635, and 16429.1 of the Government Code, the State of California limits the investment vehicles available to local agencies to the following:

#### **1. U.S. Treasury Instruments**

As authorized in Government Code Section 53601(b), this category includes bills, notes, bonds or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There are no portfolio limitations on the amount.

#### **2. Government Sponsored Enterprises**

As authorized in Government Code Section 53601(f), this category includes a wide variety of government securities. These securities include U. S. government-sponsored enterprise obligations, such as issues by the Federal National Mortgage Association (FNMA's), Federal Home Loan Bank (FHLB), Federal Farm Credit (FFCB), Student Loan Marketing Association (SLMA), etc. There are no portfolio limitations on the amount.

#### **3. Municipal Securities**

As authorized in Government Code Section 53601(a)(c)(d)(e), this category includes obligations of the City, the State of California, any of the other 49 states, and any local agency within the State of California, provided that:

- The securities are rated "A" or higher by at least one nationally recognized statistical rating organization.
- No more than 5% of the portfolio may be invested in any issuer.
- The maximum maturity does not exceed five years.

**4. Banker's Acceptances**

As provided in Government Code Section 53601(f)g, 40% of the City's portfolio may be invested in Banker's Acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank, although no more than 30% of the portfolio may be invested in Bankers' Acceptances with any one commercial bank. Additionally, the maturity period cannot exceed 180 days.

**5. Commercial Paper**

Commercial paper is a short-term, unsecured promissory note issued by financial and non- financial companies to raise short-term cash. As provided in Government Code Section 53601(h) up to 25% of the City's portfolio may be invested in "prime" commercial paper of the highest ranking or of the highest letter and number rating as provided by a nationally recognized statistical-rating organization (i.e., Moody's or Standard and Poor's or Fitch), with maturities not to exceed 270 days. The issuer must have total assets in excess of \$500 million, and have debt other than Commercial Paper rated "A" or higher by a nationally recognized statistical-rating organization.

**6. Negotiable Certificates of Deposit**

Negotiable certificates of deposit are a fixed deposit certificate that may be negotiated (traded) to a third party. The institution issuing the certificate promises to pay the holder the initial investment plus the interest rate stated on the certificate at maturity. As authorized in Government Code Section 53601(i), the City may invest 30% of its portfolio in negotiable certificates of deposit issued by commercial banks, thrifts and foreign banks.

**7. Repurchase Agreements**

Repurchase agreements are agreements between the local agency and seller for the local agency to purchase government securities to be resold back to the seller at a specific date and for a specific amount and are authorized by Government Code Section 53601(j). Although the legal maximum maturity on these investments is 360 days, repurchase agreements are generally short-term investments varying from one day to two weeks. Investments in repurchase agreements must be collateralized, and collateral required for repurchase agreements is limited to Treasury and Agency securities. In order to anticipate market changes and provide a level of security for all funds, the required collateralization level is 102% of market value of principal and accrued interest.

**8. Reverse Repurchase Agreements**

Reverse repurchase agreements are a sale of securities by the local agency with a simultaneous agreement for the local agency to repurchase the securities on or before a specified date. As provided in Government Code section 53635(j), reverse repurchase agreements require the prior approval of the City Council. Reverse repurchase agreements can only be made with primary dealers of the Federal

Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with the local agency. There are no portfolio limitations on the amount for these investments.

**9. Medium-Term Corporate Notes**

As authorized in Government Code Section 53601(k), local agencies may invest in corporate bonds and notes of industrial companies, banks, bank holding companies, insurance companies, thrifts and finance companies that are rated "A" or better by a nationally recognized rating service; and issued by corporations organized and operating in the United States. The maximum remaining maturity is limited to five years, and the amount invested must not exceed 30% of the agency's portfolio.

**10. Shares of Beneficial Interest Issued By Diversified Management Companies**

As authorized in Government Code Section 53601(l), local agencies are also authorized to invest in shares of beneficial interest issued by diversified management companies (i.e., mutual funds) as defined in Section 23701(m) of the Revenue and Taxation Code in an amount not to exceed 20% of the agency's portfolio.

**11. Financial Futures and Financial Option Contracts**

As authorized in Government Code Section 53601.1, local agencies may invest in financial futures or option contracts in any of the above investment categories subject to the same overall portfolio limitations.

**12. Time Certificates of Deposit**

As authorized in Government Code Section 53635, time certificates of deposit are fixed term, non-negotiable investments which are required to be collateralized 110% by eligible pooled securities. The pool is administered by the State, and is composed of a wide variety of government securities, secured by first mortgages on improved residential property located in the State. There are no portfolio limits on the amount; however the maturity period for this investment vehicle may not exceed five years unless approved by the Council.

**13. Local Agency Investment Fund**

As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a pooled investment fund managed by the State Treasurer's Office. It operates like a money market fund, but is for the exclusive benefit of governmental entities within the State. The current maximum amount of money that may be invested is \$40 million.

**14. Moneys Held By A Trustee Or Fiscal Agent**

As authorized in Government Code Section 53601(m), debt proceeds held by a trustee or fiscal agent, which are pledged to the payment or security of bonds or other indebtedness may be invested in accordance with the statutory provisions governing the issuance of those bonds or other agreement; or to the extent not

inconsistent with statutory provisions, or if there are no specific statutory provisions, investments may be made in accordance with the ordinance, resolution, indenture, or agreement of the local agency for the issuance.

This category includes investment agreements approved in writing by insurance companies, supported by appropriate opinions of counsel with notice to Standard and Poor's.

**15. Other Secured Notes, Bonds Or Other Obligations**

As authorized in Government Code Section 53601(n), notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities.

**16. Mortgage Pass Through, Collateralized Mortgage Obligation, Mortgage-backed Bond, Equipment Lease-backed Certificate, Consumer Receivable Pass through Certificate, and Consumer Receivable-backed Bond**

As authorized in Government Code Section 53601(o), securities in this category must be rated "AA" or its equivalent or better by a nationally recognized rating service. Purchases may not exceed 20% of the agency's portfolio.

**17. Public Bank Obligations**

As authorized in Government Code Section 53601(r), 53635(c), and 57603 local agencies may invest on commercial paper, debt securities or other obligations of a public bank. The maximum remaining maturity is limited to five years.

**B. City Policies**

**1. Allowable Investment Vehicles and Restrictions**

The Director of Finance/City Treasurer is authorized to invest in any of the investment vehicles allowed by Sections 53601, 53635 and 16429.1 of the Government Code above, with the following limitations:

Financial futures; option contracts, floaters, inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest income if held to maturity may not be purchased. Exclusion of these vehicles is consistent with the City's overall objective of achieving reasonable yields on public funds while minimizing risk and capital losses. Although the potential exists for greater interest yields with these vehicles, it is believed that the potential level of risk exceeds their benefits except in very limited circumstances.

- Reverse repurchase agreements shall be entered into only to effect a "matched" transaction whereby the proceeds of the reverse are reinvested for the same

period as the term of the reverse repurchase agreement.

- Funds will only be invested in negotiable Certificates of Deposit that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) in amounts up to \$250,000 (including interest).
- The authority to invest in certain securities is restricted by the provisions of the section entitled “Responsible Investing”.
- No more than 45% of the portfolio may be invested in callable agency or government- sponsored enterprise securities.
- Commercial paper is limited to a maturity of 180 days, and the issuer must have the highest rating from two nationally recognized rating agencies, not one (as required by the State).
- The greater of \$5 million or 2% of the short-term portfolio can be in the commercial paper of any single corporation or group under essentially common ownership or control.
- Purchases of such corporate notes as mortgage pass through, collateralized mortgage obligation, mortgage-backed bond, equipment lease-backed certificate, consumer receivable pass through certificate and consumer receivable-backed bond must be rated “Aa” or AA or its equivalent or better by a nationally recognized rating service. As authorized in Government Code Section 53601(j), staff may invest in corporate bonds and notes of industrial companies, banks, bank holding companies, insurance companies, thrifts and finance companies that are rated “A” or better by a nationally recognized rating service; and issued by corporations organized and operating in the United States. The amount invested must not exceed 30% of the agency's portfolio.
- No investment shall be made which involve a “hidden” reduction in the investment rate or yield in order to subsidize other investment programs. For example, the City invests \$10,000,000 for a year at a rate of 1% less than “market” rates.
- Up to 100% of the portfolio may be placed in money market accounts.

See Appendix A for the Investment Portfolio/Diversification Requirements, which lists the maximum amounts that may be invested in the various investment types and the maximum authorized maturities.

## 2. Term

Reserve funds from the proceeds of debt issues may be invested by the Director of Finance/City Treasurer in government agency securities with terms exceeding five (5) years, if the maturity of such investments are made to coincide as nearly as practicable with the life of the debt issue. A maximum of 30 percent of the par value of the portfolio may be invested in a stated maturity of up to 10 years.

## 3. New Investments

No new types of investments will be purchased for the first time without at least two weeks notification to the City Council. For example, although Mortgage Pass through securities are authorized investments, none will be purchased for the first time without such prior City Council notification.

## VI. Investment Maturity

In addition to the risks associated with the credit-worthiness of the financial institution and the security of the investment vehicle, the maturity period of investments is also a significant consideration in the management of the City's portfolio. In order to minimize the impact of market risk, it is intended that all investments will be held until maturity. Investments may be sold prior to maturity for cash flow or appreciation purposes; however, no investment shall be made based solely on yields resulting from anticipated capital gains.

Also, except for debt proceeds, a maximum of 30 percent of the par value of the portfolio may exceed five years.

## VII. Cash Management

To achieve a reasonable return on public funds, the following cash management practices will be followed:

- Maintain maximum investment of all City funds not required to meet immediate cash flow needs while maintaining adequate compensating balances as required under the City's banking services agreement.
- Pool resources available for investment from all City-administered funds, with interest earnings allocated to each of the funds in accordance with generally accepted accounting principles.
- Maximize the City's cash flow through the immediate deposit of all cash receipts, use of direct deposits and wire transfers when available, and appropriate timing of payments to vendors.

- Maximize the cash flow information available through the use of only one operating bank account.

## **VIII. Evaluation of Investment Performance**

As indicated in the Introduction section of this document, it is the City's primary investment objective to achieve a reasonable rate of return on public funds while minimizing risks and preserving capital. In evaluating the performance of the City's portfolio in achieving this objective, it is expected that yields on City investments will regularly meet or exceed the average return on the State Local Agency Investment Fund (LAIF).

## **IX. Investment Reporting**

Consistent with Sections 16481.2 and 53646 of the Government Code, the Department of Finance shall submit an annual Statement of Investment Policies to the Council for consideration at a public meeting.

In addition to the submittal of an annual Statement of Investment Policies, the Department of Finance shall provide the Council with a quarterly and annual investment report providing the following information for each investment or security:

- Issuer or broker/dealer (financial institution)
- Type of investment
- Certificate or other reference number if applicable
- Percentage yield on an annualized basis
- Purchase date
- Maturity date for each investment and the weighted average maturity of all the investments within the portfolio
- Current book value
- Current market value
- Total cost and market value, including source of this valuation, of the City's portfolio
- A description of the compliance with the Statement of Investment Policies
- An evaluation of investment operations for the preceding year. This shall include an evaluation of how well the objectives have been achieved: the accuracy of forecasting expenditures and revenues, as well as a comparison of the average returns on the investment portfolio with that of the Local Agency Investment Fund (LAIF).
- Report of investments. The Director of Finance shall prepare a report that provides a clear status of the current investment portfolio and transactions. The report will be prepared in a manner which allows the City Manager and Council to ascertain whether investment activities during the reporting period have conformed to the investment policies.

- Summary of key or unusual events, including but not limited to:
  - Any exceptions to policies;
  - Adherence to or deviations from social investment goals;
  - Purchases of Treasury securities, other than in repurchase agreements with maturities of seven days or less;
  - Purchases of securities that exceed maturity limits;
  - Sales of securities more than three months before maturity;
  - Changes in investment procedures, dealers, staff, etc.
  
- Investment performance:
  - A glossary, defining all funds or accounts referred to elsewhere in the report; and a listing of banks, securities dealers and custodians that the City has had investment transactions during the period.
  - A summary of the certifications for deposits of City funds.
  - Other information regarding the City's portfolio as appropriate

The Quarterly Investment Report shall include all investments as of the end of the quarter from all funds held in the City's portfolio, and shall be issued within 60 days after the end of the quarterly reporting period to the City Manager, and the City Council; the annual report shall be issued within 90 days after the end of the fiscal year to the City Manager, and the City Council.

## X. Appendices

### A. Investment Portfolio – Diversification Requirements

#### Investment Portfolio Diversification Requirements

Investment Instrument	Maximum Amount of Portfolio	Maximum Length to Maturity
Bank / Time Deposit Accounts	100%	5 Years
Money Market Deposit Accounts	100%	N/A
Repurchase Agreements	10%	1 Year
Reverse Repurchase Agreements	10%	7 Days
Bankers Acceptances	40%	7 Days
U.S. Government Securities (Treasury Bills, Notes, and Bonds)	100%	10 Years
U.S. Government Agency Securities by Agency	100%	10 Years
Certificates of Deposit (Negotiable)	30%	10 Years
Municipal Bonds	100%	5 Years
Commercial Paper	25%	180 Days
Medium Term Notes	30%	10 Years
Public Bank Obligations	10% of Unrestricted Investments	5 Years

## B. Berkeley's ESG Investing Initiative



CITY OF BERKELEY

### BERKELEY'S ESG INVESTING INITIATIVE

On November 27, 2018, City of Berkeley City Council approved the recommendation to incorporate the Environmental, Social, and Governance (ESG) principles in the City of Berkeley's investment policy. This is a new effort to integrate ESG considerations into Berkeley's investment decision-making process would lead the way for responsible investment in the United States and across the globe. ESG factors makes good business sense and leads to more sustainable markets and better outcomes for societies.

### WHAT IS ESG INVESTING?

ESG investing describes the consideration of environmental, social, and governance (ESG) factors alongside traditional financial factors in the investment decision-making process, ensuring that investments are financially prudent and impact driven. ESG factors may include greenhouse gas emissions, energy usage, labor standards, business ethics, gender and racial diversity, executive compensation, and more.

### WHY IS ESG INVESTING IMPORTANT?

First, ESG investing drives better risk-adjusted returns, since companies that score higher on ESG factors tend to have stronger fundamentals that mitigate financial risk, putting those companies in a better position for long-run stability and profitability.

And second, ESG investing helps guide investment dollars to make a positive impact on some of the most fundamental challenges facing Berkeleyans. Through promoting investments in companies that prioritize conservation and sustainable business practices, it helps protect our environment for future generations. Through promoting investments in companies that promote a better quality of life for all of us, it helps create a more equitable, just corporate eco-system and world. And through promoting investments in companies with strong corporate governance, it helps promote sound and representative management practices.

### WHAT IS THE CITY OF BERKELEY'S APPROACH?

We plan to take clear, defined steps toward fully integrating ESG factors into the investment decisions within our operating portfolio, potentially including the following actions and commitments:

- **100% Integration:** Ensure that 100% of investment decisions on corporate securities are analyzed through ESG factors, making Berkeley one of the few cities in the country to take this step with its operating portfolio. Specific factors will include (but will not be limited to):
  - *Environmental:* Carbon Footprint; Energy Consumption; Water/Waste; External Conservation Initiatives; and Sector-Specific Adjustments.
  - *Social:* Labor Rights; Employee Diversity; Corporate Social Responsibility; and Human Rights/Ethics.
  - *Governance:* Leadership Structure; Executive Compensation; Human Capital Management; Transparency/Disclosure; and Shareholder Rights.
- **Comprehensive Approach:** Seek to maintain a minimum ESG portfolio rating of investment grade or higher.
- **Proactive, Responsible Investing:** Pursue opportunities for sustainable investments, including purchasing securities from market leaders in disclosure and corporate board diversity, securities that fund community development projects, and other securities with strongly positive effects on our communities.
- **Commitment to Carbon-Neutrality:** Achieve a carbon-neutral portfolio from an investment perspective, which may include seeking to offset existing investments in the top 200 publicly-owned coal, oil, and gas reserve owners (ranked by the carbon emissions embedded in their reserves) with socially responsible investments.

CITY OF BERKELEY

INVESTMENT POLICY

FOR RETIREE MEDICAL PLAN TRUST FUNDS



Effective July 1, 2024

Public

**City of Berkeley**  
**INVESTMENT POLICIES FOR RETIREE MEDICAL PLAN**  
**TRUST FUNDS**  
**July 1, 2024**

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Public

## **I. INTRODUCTION**

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Pursuant to Sections 2.44.040 and 2.44.060 of the Berkeley Municipal Code, Resolution No. 45,087-N.S., and Sections 53601, 53607, 53636 and 53648 of the State Government Code, the Director of Finance, the Treasurer of the City, is authorized to make investments of the City's idle funds. The Code also directs the City to present an annual investment policy to the City Council for approval. This Investment Policy, after approval of the amendments by the City Council, will serve as the Investment Policy for the City of Berkeley for the subsequent fiscal year.

Notwithstanding Section 53601 or 53635, the governing body of a local agency may invest funds designated for the payment of employee retiree health benefits in any form or type of investment deemed prudent by the governing pursuant to Section 53622. The authority of the governing body to invest or to reinvest funds intended for the payment of employee retiree health benefits, or to sell or exchange securities purchased for that purpose, may be delegated by the governing body to designated officers. The City Council has designated the Director of Finance, the Treasurer of the City, or his/her designee, the authority to make investments of the City's retiree medical plan trust funds.

Funds intended for the payment of employee retirement health benefits shall only be held for the purpose of providing benefits to participants in the retiree health benefit plan and defraying reasonable expenses of administering that plan.

The governing board or designated officer, when making investments of the funds, shall discharge its duties with respect to the investment of the funds.

- (1) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants in the retiree health benefit plan, minimizing employer contributions thereto, and defraying reasonable expenses of administering the plan.
- (2) With care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- (3) Shall diversify the investments of the funds so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

### **A. SCOPE OF POLICIES**

These investment policies apply to the investments of the Retiree Medical Plan Trust Funds.

### **B. INVESTMENT OBJECTIVES**

The Treasurer adheres to the principle which maintains that over the long-term, prudent investment risk-taking may be rewarded with higher incremental returns. Consequently, while capital preservation (i.e., Safety) is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

### **C. USE OF STATE INVESTMENT GUIDELINES**

Public

As required under Government Code Sections 16481.2 and 53646, the Statement of Investment Policies will be reviewed by the Council annually.

## **II. INVESTMENT AUTHORITY AND RESPONSIBILITIES**

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### **A. AUTHORIZED INVESTMENT OFFICERS**

#### *1. Retiree Medical Trust Funds:*

A Trust is to be established by the City for the purpose of holding and investing assets separate and apart from the other funds of the City to fund the benefits of the Program. The specific terms governing the Trust are to be set forth in a separate trust instrument.

- The trustee of the Trust (the “Trustee”) may be the City Treasurer (i.e., Director of Finance) or an independent third party qualified to act as a trustee under California law and designated by the City.
- The Trustee shall be a fiduciary of the Program and shall act solely in the interest of the Participants, minimizing employer contributions to the Trust, and defraying reasonable expenses of administering the Program.
- The City Manager may, with the written concurrence of the City Council, appoint an “investment manager” (as that term is defined in section 3(38) of the Employee Retirement Income Security Act) to have responsibility for investment of the Trust assets. In this case, the Trustee shall act as directed by the investment manager. The investment manager shall act as a fiduciary of the Program and shall act with the same duties and responsibilities set out in “Investment Objectives” section above.

### **B. INTERNAL CONTROLS**

The Director of Finance shall establish a system of internal controls designed to prevent losses of trust funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Berkeley. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. These controls shall include:

- Separation of transaction authority from accounting and physical custody.
- By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- Also, securities purchased from any bank or dealer including appropriate collateral (as defined by State Law), shall be placed with an independent third party for custodial safekeeping.
- Avoidance of physical delivery of securities by using a delivery versus payment “Basis of Settlement Only”.
- All trades will be executed on a delivery versus payment (DVP) basis. This ensures that securities are delivered to the City’s safekeeping bank at the same time the funds

Public

are released by the City's safekeeping bank.

- Third-Party custodial safekeeping of securities held in the name of the City. Delivered securities must be properly safeguarded against loss or destruction. Book entry securities are recorded in electronic records and the potential for fraud and loss increases with physically delivered securities. All investment securities, except collateralized certificates of deposit and money market funds, purchased by the City will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a City-approved custodian bank, its correspondent New York Bank or the Depository Trust Corporation (DTC). Whenever possible, securities purchased are to be recorded in "book entry" form.
- All securities and applicable collateral will be held by the City's third party custodian and evidenced by safekeeping receipts. All book entry securities owned by the City shall be evidenced by a safekeeping receipt issued to the City by the custodian bank to acknowledge that the securities are held in the Federal Reserve system in a "customer account" for the custodian bank which names the City as "customer";

The Director of Finance will require each approved safekeeping financial institution to submit a copy of its Consolidated Report of Condition and Income (Call Report) to the City within 60 days after the end of each calendar quarter.

- Competitive bidding on investment transactions. Before the City invests in any secondary market funds, competitive bids shall be requested. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested from at least three financial institutions for instruments which meet the maturity requirement. If no specific maturity is required, a yield curve analysis will be conducted to determine which maturities would be most advantageous.
- Written confirmation and documentation of all financial transactions.
- Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.
- Rapid deposit of funds received by the City (i.e., large checks.)
- Bonding of all investments officials.

### C. EVALUATION OF INVESTMENT OFFICER ACTIONS

Section 53600.3 of the Government Code identifies trustees as those persons authorized to make investment decisions on behalf of a local agency. As a trustee, the standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this plan.

Public

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

### **III. CAPITAL PRESERVATION AND RISK**

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#### **A. OVERVIEW**

The Treasurer adheres to the principle which maintains that over the long-term, prudent investment risk-taking may be rewarded with higher incremental returns. Consequently, while capital preservation (i.e., Safety) is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

Some level of risk is inherent in any investment transaction. Losses may be incurred due to issuer default, market price changes, or technical cash flow complications such as investments in non-marketable certificates of deposit. Diversification of the City's portfolio by institution, investment vehicle, and maturity term is the primary tool available to the City in minimizing investment risk and capital losses by safeguarding the overall portfolio from any individual loss.

#### **B. PORTFOLIO DIVERSIFICATION PRACTICES**

The following sections summarize the City's major portfolio diversification practices and guidelines in determining:

- Authorized Dealers
- Investment Vehicles
- Investment Maturity

Portfolio limitations included in these guidelines are to be based on the portfolio composition and investment management plan policies in effect at the time of placement; the actual composition of the City's investments may vary over time from plan limitations due to overall portfolio changes from when the individual placement was made as well as changes in the City's investment management plan.

### **IV. ELIGIBLE FINANCIAL INSTITUTIONS**

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#### **A. AUTHORIZED DEALERS**

Public

- Investments shall be purchased only through well-established, financially sound institutions. The Finance Director shall maintain a list of financial institutions and broker/dealers approved for investment. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions will be given a copy of the City's Statement of Investment Policies, and a return cover letter which must be signed indicating that the Statement of Investment Policies has been read and understood.

Qualified financial institutions and broker/dealers must supply the Director of Finance with the following:

Financial Institutions

Current audited financial statements

Depository contracts, as appropriate

A copy of the latest FDIC call report or the latest FHLBB report, as appropriate.

Broker/Dealers

Current audited financial statements

Proof that brokerage firm is a member in good standing with a national securities exchange.

- Except for repurchase agreements, investments shall be awarded based on competitive bids. Documentation relating to investment quotes shall be maintained by the Finance Department for a period of one year.

## **B. INDIVIDUAL PLACEMENT OF DEPOSITS**

Individual placement of negotiable, collateralized, and other time certificates of deposit with eligible financial institutions shall be based on the following practices and procedures:

- Deposits shall only be placed with financial institutions maintaining offices within the City of Berkeley.
- Unless collateralized by eligible securities as provided in Sections 53651 and 53652 of the Government Code, the maximum amount of Certificates of Deposit to be placed with any single institution is \$250,000.

## **V. INVESTMENT VEHICLES**

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The governing body of a local agency may invest funds designated for the payment of employee retiree health benefits in any form or type of investment deemed prudent by the governing pursuant to Section 53622. Some of the investment vehicles the City Council has authorized are the following:

Public

**1. U.S. Treasury Instruments**

As authorized in Government Code Section 53601(b), this category includes bills, notes, bonds or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There are no portfolio limitations on the amount.

**2. Government Sponsored Enterprises**

As authorized in Government Code Section 53601(f), this category includes a wide variety of government securities. These securities include U. S. government-sponsored enterprise obligations, such as issues by the Federal National Mortgage Association (FNMA's), Federal Home Loan Bank (FHLB), Federal Farm Credit (FFCB), Student Loan Marketing Association (SLMA), etc. There are no portfolio limitations on the amount.

**3. Municipal Securities**

As authorized in Government Code Section 53601(a)(c)(d)(e), this category includes obligations of the City, the State of California, any of the other 49 states, and any local agency within the State of California, provided that:

- The securities are rated “A” or higher by at least one nationally recognized statistical rating organization.
- 
- There are no limitations on the amount or period.

**4. Banker's Acceptances**

As provided in Government Code Section 53601(f)g, 40% of the City's portfolio may be invested in Banker's Acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank, although no more than 30% of the portfolio may be invested in Bankers' Acceptances with any one commercial bank. Additionally, the maturity period cannot exceed 180 days.

**5. Commercial Paper**

Commercial paper is a short-term, unsecured promissory note issued by financial and non-financial companies to raise short-term cash. As provided in Government Code Section 53601(h) up to 25% of the City's portfolio may be invested in "prime" commercial paper of the highest ranking or of the highest letter and number rating as provided by a nationally recognized statistical-rating organization (i.e., Moody's or Standard and Poor's or Fitch), with maturities not to exceed 270 days. The issuer must have total assets in excess of \$500 million, and have debt other than Commercial Paper rated “A” or higher by a nationally recognized statistical-rating organization.

**6. Negotiable Certificates of Deposit**

Negotiable certificates of deposit are a fixed deposit certificate that may be negotiated (traded) to a third party. The institution issuing the certificate promises to pay the holder the initial investment plus the interest rate stated on the certificate at maturity. As authorized in Government Code Section 53601(i), the City may invest 30% of its portfolio in negotiable certificates of deposit issued by commercial banks, thrifts and foreign banks.

Public

**7. Repurchase Agreements**

Repurchase agreements are agreements between the local agency and seller for the local agency to purchase government securities to be resold back to the seller at a specific date and for a specific amount and are authorized by Government Code Section 53601(j). Although the legal maximum maturity on these investments is 360 days, repurchase agreements are generally short-term investments varying from one day to two weeks. Investments in repurchase agreements must be collateralized, and collateral required for repurchase agreements is limited to Treasury and Agency securities. In order to anticipate market changes and provide a level of security for all funds, the required collateralization level is 102% of market value of principal and accrued interest.

**8. Reverse Repurchase Agreements**

Reverse repurchase agreements are a sale of securities by the local agency with a simultaneous agreement for the local agency to repurchase the securities on or before a specified date. As provided in Government Code section 53635(j), reverse repurchase agreements require the prior approval of the City Council. Reverse repurchase agreements can only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with the local agency. There are no portfolio limitations on the amount for these investments.

**9. Medium-Term Corporate Notes**

As authorized in Government Code Section 53601(k), local agencies may invest in corporate bonds and notes of industrial companies, banks, bank holding companies, insurance companies, thrifts and finance companies that are rated "A" or better by a nationally recognized rating service; and issued by corporations organized and operating in the United States. There are no portfolio limitations for these investments.

**10. Shares of Beneficial Interest Issued By Diversified Management Companies**

As authorized in Government Code Section 53601(l), local agencies are also authorized to invest in shares of beneficial interest issued by diversified management companies (i.e., mutual funds) as defined in Section 23701(m) of the Revenue and Taxation Code in an amount not to exceed 20% of the agency's portfolio.

**11. Financial Futures and Financial Option Contracts**

As authorized in Government Code Section 53601.1, local agencies may invest in financial futures or option contracts in any of the above investment categories subject to the same overall portfolio limitations.

**12. Time Certificates of Deposit**

As authorized in Government Code Section 53635, time certificates of deposit are fixed term, non-negotiable investments which are required to be collateralized 110% by eligible pooled securities. The pool is administered by the State, and is composed of a wide variety of government securities, secured by first mortgages on improved residential property located in the State. There are no portfolio limits on the amount; however the maturity period for this investment vehicle may not exceed five years unless approved by the Council.

Public

**13. Local Agency Investment Fund**

As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a pooled investment fund managed by the State Treasurer's Office. It operates like a money market fund, but is for the exclusive benefit of governmental entities within the State. The current maximum amount of money that may be invested is \$40 million.

**14. Moneys Held By A Trustee Or Fiscal Agent**

As authorized in Government Code Section 53601(m), debt proceeds held by a trustee or fiscal agent, which are pledged to the payment or security of bonds or other indebtedness may be invested in accordance with the statutory provisions governing the issuance of those bonds or other agreement; or to the extent not inconsistent with statutory provisions, or if there are no specific statutory provisions, investments may be made in accordance with the ordinance, resolution, indenture, or agreement of the local agency for the issuance.

This category includes investment agreements approved in writing by insurance companies, supported by appropriate opinions of counsel with notice to Standard and Poor's.

**15. Other Secured Notes, Bonds Or Other Obligations**

As authorized in Government Code Section 53601(n), notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities.

**16. Mortgage Pass Through, Collateralized Mortgage Obligation, Mortgage-backed Bond, Equipment Lease-backed Certificate, Consumer Receivable Pass through Certificate, and Consumer Receivable-backed Bond**

As authorized in Government Code Section 53601(o), securities in this category must be rated "AA" or its equivalent or better by a nationally recognized rating service. Purchases may not exceed 20% of the agency's portfolio.

In addition to the authorized investments above, the following investments may be made by Retiree Medical plan funds:

- Up to 100% of the retiree medical plans funds may be invested in equity mutual funds<sup>1</sup> or equity index funds<sup>2</sup>, preferred stock<sup>3</sup> and bond funds<sup>4</sup>.

<sup>1</sup>Equity Mutual Fund – A financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities. When you invest in a mutual fund, you are buying shares of the mutual fund and become a shareholder of the fund. They are very cost effective, as the fund can purchase securities with much lower trading costs than an individual investor. But the biggest advantage to mutual funds is diversification.

<sup>2</sup>Equity Index Fund – A mutual fund that attempts to copy the performance of a stock market index. The most common index fund tries to track the S&P 500 by purchasing all 500 stocks

Public

using the same percentages as the index. Index funds have lower fees because computers do most of the work. There is no need to hire an expensive fund manager or research analysts. Index funds can have an expensive ratio as low as .18%, while actively managed funds can have an expense ratio over 3%. Over the long-term, the S&P 500 beats the returns of 80% of actively managed funds.

<sup>3</sup>Preferred Stock – A hybrid between common stock and a bond. Each share of preferred stock is normally paid a guaranteed dividend that receives first priority (i.e., the common stockholders cannot receive a dividend until the preferred dividend has been paid in full) and has priority over the common stockholders relative to the company's assets in the event of bankruptcy.

<sup>4</sup>Bond Fund- A bond fund is a more efficient way of investing in bonds than buying individual securities. Bond mutual funds are just like stock mutual funds in that you put your money into a pool with other investors, and a professional invests that pool of money according to what he or she thinks the best opportunities are. They are very cost effective, as the fund can purchase securities with much lower trading costs than an individual investor. But the biggest advantage to mutual funds is diversification.

Some of the investment vehicles that are Unallowable Investment Vehicles and Restrictions:

The Director of Finance/City Treasurer is not authorized to invest in any of the following investment vehicles:

Financial futures; option contracts, floaters, inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest income if held to maturity may not be purchased. Exclusion of these vehicles is consistent with the City's overall objective of achieving reasonable yields on public funds while minimizing risk and capital losses. Although the potential exists for greater interest yields with these vehicles, it is believed that the potential level of risk exceeds their benefits except in very limited circumstances.

See Appendix A for the Investment Portfolio/Diversification Requirements, which lists the maximum amounts that may be invested in the various investment types and the maximum authorized maturities.

In accordance with Government Code Sections 53620-53622, the assets of the City of Berkeley Retiree Medical Plan Trust may be invested in any form or type of investment deemed prudent by the City Council. The maximum maturity for Retiree Medical Plan Trust funds is 30 years.

## **VI. CASH MANAGEMENT**

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To achieve a reasonable return on public funds, the following cash management practices will be followed:

- Maintain maximum investment of all City funds not required to meet immediate cash flow needs.

Public

- Maximize the City's cash flow through the immediate deposit of all cash receipts, use of direct deposits and wire transfers when available, and appropriate timing of payments to vendors.
- Maximize the cash flow information available through the use of only one operating bank account.

## **VII. EVALUATION OF INVESTMENT PERFORMANCE**

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An actuarial study commissioned by the City many years ago determined that, in addition to City Contributions, an average rate of return of 7% on miscellaneous employees' retiree medical trust fund assets invested must be achieved to fund the retiree health benefit at the desired 70% level. Primarily as a result of the Federal Reserve Board's decision to keep short-term rates near zero for the last 10 years, the average rate currently earned is significantly below that 7% level.

## **VIII. INVESTMENT REPORTING**

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Consistent with Sections 16481.2 and 53646 of the Government Code, the Department of Finance shall submit an annual Statement of Investment Policies to the Council for consideration at a public meeting.

In addition to the submittal of an annual Statement of Investment Policies, the Department of Finance shall provide the Council with a quarterly and annual investment report providing the following information for each investment or security:

- Issuer or broker/dealer (financial institution)
- Type of investment
- Certificate or other reference number if applicable
- Percentage yield on an annualized basis
- Purchase date
- Maturity date for each investment and the weighted average maturity of all the investments within the portfolio
- Current book value
- Current market value
- Total cost and market value, including source of this valuation, of the City's portfolio
- A description of the compliance with the Statement of Investment Policies
- An evaluation of investment operations for the preceding year. This shall include an evaluation of how well the objectives have been achieved: the accuracy of forecasting expenditures and revenues, as well as a comparison of the average returns on the investment portfolio with that of the Local Agency Investment Fund (LAIF).
- Report of investments. The Director of Finance shall prepare a report that provides a clear status of the current investment portfolio and transactions. The report will be prepared in a manner which allows the City Manager and Council to ascertain whether investment activities during the reporting period have conformed to the investment policies.
- Summary of key or unusual events, including but not limited to:
  - Any exceptions to policies;
  - Adherence to or deviations from social investment goals;

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- Purchases of Treasury securities, other than in repurchase agreements with maturities of seven days or less;
- Purchases of securities that exceed maturity limits;
- Sales of securities more than three months before maturity;
- Changes in investment procedures, dealers, staff, etc.
- Investment performance;
  - A glossary, defining all funds or accounts referred to elsewhere in the report; and
  - A listing of banks, securities dealers and custodians that the City has had investment transactions during the period.
  - A summary of the certifications for deposits of City funds.
  - Other information regarding the City's portfolio as appropriate

The Quarterly Investment Report shall include all investments as of the end of the quarter from all funds held in the City's portfolio, including funds held and invested by trustees; and shall be issued within 30 days after the end of the quarterly reporting period to the City Manager, and the City Council; the annual report shall be issued within 90 days after the end of the fiscal year to the City Manager, and the City Council.

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**APPENDIX A****INVESTMENT PORTFOLIO  
Diversification Requirements**

<b><u>Investment Instrument</u></b>	<b><u>Maximum Amount Of Portfolio</u></b>	<b><u>Maximum Length To Maturity</u></b>
Bank / Time Deposit Accounts	100%	5 Years
Money Market Deposit Accounts	100%	N/A
Repurchase Agreements	10%	1 Year
Reverse Repurchase Agreements	10%	7 Days
Bankers Acceptances	40%	7 Days
U.S. Government Securities (Treasury Bills, Notes, and Bonds)	100%	30 Years
U.S. Government Agency Securities by Agency	100%	30 Years
Certificates of Deposit (Negotiable)	30%	30 Years
Municipal Bonds	100%	30 Years
Commercial Paper	25%	180 Days
Medium Term Notes	30%	30 years

In addition to the investments above, the following investments may be made by Retiree Medical plan funds:

- Up to 25% of the retiree medical plans funds may be invested in equity mutual funds<sup>1</sup> or equity index funds<sup>2</sup>, and preferred stock<sup>3</sup>.

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<sup>1</sup>Equity Mutual Fund – A financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities. When you invest in a mutual fund, you are buying shares of the mutual fund and become a shareholder of the fund. They are very cost effective, as the fund can purchase securities with much lower trading costs than an individual investor. But the biggest advantage to mutual funds is diversification.

<sup>2</sup>Equity Index Fund – A mutual fund that attempts to copy the performance of a stock market index. The most common index fund tries to track the S&P 500 by purchasing all 500 stocks using the same percentages as the index. Index funds have lower fees because computers do most of the work. There is no need to hire an expensive fund manager or research analysts. Index funds can have an expense ratio as low as .18%, while actively managed funds can have an expense ratio over 3%. Over the long-term, the S&P 500 beats the returns of 80% of actively managed funds.

<sup>3</sup>Preferred Stock – A hybrid between common stock and a bond. Each share of preferred stock is normally paid a guaranteed dividend that receives first priority (i.e., the common stockholders cannot receive a dividend until the preferred dividend has been paid in full) and has priority over the common stockholders relative to the company's assets in the event of bankruptcy.

