




Agenda Date: 11-20-2018
Agenda Item: 3F

Approved: 

Gary A. Napper
City Manager

STAFF REPORT

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: KEVIN MIZUNO, FINANCE MANAGER

DATE: NOVEMBER 20, 2018

SUBJECT: FIRST QUARTER FY 2018-19 INVESTMENT PORTFOLIO REPORT AND PROPOSAL TO AMEND CITY INVESTMENT POLICY

RECOMMENDATION

It is recommended the City Council, by minute motion, accept the City Investment Portfolio Report for the first quarter of the fiscal year ending September 30, 2018 (FY 2018-19), and adopt the attached Resolution amending the current Investment Policy authorizing the City to invest in the California Asset Management Trust (CAMP).

BACKGROUND

Pursuant to the section XIII of the City of Clayton Investment Policy, last revised on April 21, 2015, the Finance Manager is required to submit a quarterly investment report to the City Council. This quarterly report is also designed to meet the local agency reporting requirements outlined in *California Government Code* section 53646. The FY 2018-19 first quarter report is provided herein.

The City's Investment Policy guides staff and its advisors for all investment activities. Permitted investment activities are primarily governed by state law (*California Government Code* sections 53600-53610) and the City's adopted Investment Policy. The City's Investment Policy is consistent with state law and is designed to be more restrictive for the purpose of added safety and liquidity. Section XVI of the Investment Policy states it shall be periodically reviewed by the City Treasurer and the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return on investments, along with its relevance to current law, financial and economic trends, and to meet the needs of the City.

DISCUSSION

Quarterly Performance and Compliance

With the first quarter of the fiscal year complete, annual interest earnings for the General Fund is \$28,101, or 31.86% of forecasted General Fund interest revenues per the FY 2018-19 adopted budget of \$88,200. City-wide investment earnings solely attributable to pooled investments (i.e. not related to cash with fiscal agents such as bond proceeds) through the first quarter of FY 2018-19 totaled \$65,773. Approximately 3.84% of the current City Investment Pool (the Pool) is invested in Local Agency Investment Funds (LAIF). The LAIF quarterly apportionment rate was 2.16%, which is a noteworthy increase from a rate of 1.90% in just the preceding quarter. This is also a substantial improvement compared to the LAIF apportionment rate of 1.07% one year ago on September 30, 2018. Of note is this quarter's LAIF apportionment rate exceeds the quarterly weighted average yield to maturity for both of the City's two non-governmental investment accounts with UBS and Morgan Stanley, which is very uncommon. This phenomenon is due to those external accounts being composed almost entirely of fixed-income held to maturity low risk securities, such as certificates of deposit and government agency notes. However, the advantage to these accounts is maturity proceeds of old securities can be used to purchase new two to five year certificates of deposit currently yielding between 2.80% and 3.40%, far exceeding LAIF and other state-sponsored investment pools.

This reporting quarter, investments in certificates of deposit comprised approximately 86.16% of the portfolio and were the second highest yielding investment type (after LAIF deposits) with a collective weighted average interest rate of 2.06%. Federal Agency Notes, authorized by the revised April 21, 2015 Investment Policy, were the third highest yielding investment type making up approximately 6.72% of the portfolio with a weighted average interest rate of 1.90%. Approximately 3.28% of the pool is made up of cash deposits and low interest bearing money market mutual funds, liquid and available for normal operating cash flow purposes.

The market value of the total investment portfolio was approximately \$13,211,616, which is \$181,459 lower than total carrying value as of September 30, 2018. The unrealized loss in fair market value is higher than in recent quarterly portfolio reports given the City's heavy investment in two to five year fixed income securities during a period of rising interest rates. The relatively marginal difference (-1.36%) demonstrates how the cautious nature of the City's investment strategy mitigates the risk of the City incurring large unrealized losses in market declines. Simultaneously, given less risk being incurred, more predictable and modest investment returns will be realized following this same strategy.

For the first quarter ending September 30, 2018, the City of Clayton Investment Portfolio was managed in accordance with the City's Investment Policy. In addition, the City's cash management program provides sufficient liquidity to meet the next six month's expenditures. The attached City of Clayton Investment Holdings Summary – First Quarter of Fiscal Year 2018-19 (Attachment 1) provides additional analysis and the specific investment reporting criteria required by *California Government Code* section 53646.

Proposed Investment Policy Amendment

Staff recently learned the Municipal Pooling Authority (MPA), the self-insurance joint powers authority which City of Clayton is a member, has executed an agreement with the California Asset Management Program (CAMP) to take advantage of investment yields competitive with the state-administered Local Agency Investment Fund (LAIF) while providing the same type of liquidity. CAMP was created in 1989 when two public agencies formed the California Asset Management Trust (Trust) to meet local government investment needs in a manner and at a cost determined by the local governments that use the program. The Trust's activities are directed by a Board of Trustees, all of whom are employees of California public agencies. As a result, the Trust is accountable solely to its public agency participants.

The Trust's Cash Reserve Portfolio (Pool) is a short-term money market portfolio, which seeks to preserve principal, provide daily liquidity and earn a high level of income, consistent with its objective of preserving principal. In conjunction with the Pool, the Trust offers a variety of cash management tools to assist public agencies in effectively managing their cash. Currently, the Pool has over \$1.6 billion in public agency assets under management.

Staff recommends the City Council authorize the attached Resolution adding CAMP as an additional investment option. Some of the noteworthy benefits to adding CAMP as an investment option include the following:

- Safety: Standard and Poor's (S&P), of the nationally recognized credit rating agencies, reviews the assets of the CAMP Pool each week. For the Pool to maintain the "AAAm" rating, the Pool must meet certain credit rating standards and not exceed the average maturity allowed by S&P. In addition, a third-party custodian holds all cash and securities.
- Daily liquidity: The City may make withdrawals any time (same day if CAMP is notified by 11:00 a.m.) and there is no limit on the number of transactions.
- Competitive money market yields, similar to and in some periods exceeding yields for the State of California's LAIF.
- Unlimited deposits and withdrawals.
- Interest earned daily and credited monthly (Note: LAIF credits interest quarterly).
- Individually managed portfolios which can be invested solely in securities permitted by the City's Investment Policy or trust indenture.
- Monthly portfolio reports.

CAMP is governed by a seven-member board of California treasurers and finance directors. PFM Asset Management, LLC (PFM) provides day-to-day-portfolio management and program administrative services. PFM specializes in providing investment management services to public agencies. As of June 30, 2018 PFM managed over \$72 billion in public assets, including over \$17 billion for California public agencies and of the MPA.

As with all money market funds and with LAIF, all expenses of the trust are dedicated from the Pool's yield. There are no out-of-pocket expenses or administrative fees for money invested in the

Trust. The CAMP Pool is a long-established, lower risk short-term investment alternative. To invest with CAMP, the City may either join the JPA and become a voting member of its board, or the City may merely invest as a participant. The staff recommendation is the latter option.

The following list of some other California public agencies that currently invest in the CAMP Pool:

- City of Concord
- County of Contra Costa
- Municipal Pooling Authority of Northern California
- City of Fairfield
- County of Monterey
- Contra Costa Water District
- County of Alameda
- City of Napa
- Golden Gate Bridge, Highway & Transportation District

This staff report requests action of the City Council to adopt the attached Resolution amending the Investment Policy to allowing the City to invest with CAMP, which is currently not permitted as written. Investment in CAMP is allowed by *California Government Code* section 53601(p). In order to take advantage of current and potential future investment opportunities in said investments, it is recommended Section VII of the current Investment Policy be revised to allow for the City's investment in federal agency notes. By adopting the attached Resolution, the following underlined section will be added to the Investment Policy in the "Delegation of Authority" section III:

Investments made routinely by the Finance Manager are restricted to the State Pool [Local Agency Investment Fund, LAIF], California Asset Management Program (CAMP), or to securities maturing within six (6) months.

In addition, by adopting the attached Resolution, the following section will be added to the Investment Policy in the "Authorized Investments" section VII (I):

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive, and including but not limited to the California Asset Management Program (CAMP). Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issued the shares shall have retained an investment adviser that meets all of the following criteria:

1. *The adviser is registered or exempt from registration with the Securities and Exchange Commission.*
2. *The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.*
3. *The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).*

City Treasurer Review

As required by our City Investment Policy, on November 8, 2018 City Treasurer, Hank Stratford, C.P.A., reviewed and approved the attached Investment Holdings Summary (Attachment 1) and also considered the proposed amendment to the Investment Policy. It is the City Treasurer's recommendation to support the proposed amendment.

FISCAL IMPACT

The acceptance of this report has no direct fiscal impact to the City of Clayton.

- Attachments:
1. City of Clayton Investment Holdings Summary – First Quarter of Fiscal Year 2018-19 (July 1, 2018 – September 30, 2018) [2 pp.]
 2. Resolution No. __-2018 Amendment to the City's Investment Policy
 - o Exhibit A – Revised City of Clayton Investment Policy [2 pp.]
 3. California Asset Management Background Information [8 pp.]

City of Clayton
Investment Holdings Summary
Quarter Ending: September 30, 2018

ATTACHMENT 1

Investment Account	Investment Type	Institution	CUSIP	Carrying Value	Rate	Current Yield	Settlement Date	Maturity Date	Market Value
Local Agency Investment Fund (LAIF)	Local Agency Pool	Local Agency Investment Fund	n/a	514,244.39	2.16%	2.16%	n/a	n/a	513,129.72
UBS Financial Services Inc.	Money Market Fund	RMA Government Portfolio	n/a	9,578.32	1.48%	1.27%	n/a	n/a	9,578.32
	Certificate of Deposit	Bank Baroda New York, NY	0606245Q2	247,000.00	2.05%	2.05%	10/18/13	10/18/18	247,004.94
	Certificate of Deposit	Sallie Mae Bank, UT	795450QS7	147,000.00	2.05%	2.05%	10/23/13	10/23/18	147,008.82
	Certificate of Deposit	American Express C, UT	02587DWJ3	100,000.00	2.00%	2.00%	11/28/14	11/28/18	99,991.00
	Certificate of Deposit	Sallie Mae Bank, UT	795450RT4	100,000.00	2.00%	2.00%	12/11/13	12/11/18	99,989.00
	Certificate of Deposit	Keybank NA, IN	49306SVY9	100,000.00	1.53%	1.55%	1/20/16	1/22/19	99,925.00
	Certificate of Deposit	Discover Bank, DE	25467ZGC6	150,000.00	1.60%	1.60%	1/28/15	1/28/19	149,730.00
	Certificate of Deposit	Preferred Bank, CA	740367ER4	197,000.00	1.20%	1.20%	3/9/16	3/29/19	196,259.28
	Certificate of Deposit	First Savings Bank, IN	33621LBV4	99,000.00	1.15%	1.16%	5/4/16	5/24/19	98,307.99
	Certificate of Deposit	UBS Bank, UT	90348JAS9	200,000.00	1.20%	1.21%	6/9/16	6/17/19	198,426.00
	Certificate of Deposit	Discover Bank, DE	2546712E9	100,000.00	2.00%	2.01%	7/9/14	7/9/19	99,731.00
	Certificate of Deposit	Synchrony Bank, UT	87164XBQ8	100,000.00	2.05%	2.06%	7/11/14	7/11/19	99,726.00
	Certificate of Deposit	First Financial NW, WA	32022MAJ7	147,000.00	1.45%	1.46%	2/10/16	8/19/19	145,734.33
	Certificate of Deposit	Third Fed S&L Assn, OH	88413QAY4	200,000.00	1.50%	1.50%	2/19/15	8/19/19	199,382.00
	Certificate of Deposit	Park Natl Bk Newar, OH	700654AT3	240,000.00	2.15%	2.16%	9/12/14	9/12/19	238,910.40
	Certificate of Deposit	Gulf Coast B&T, LA	402194FB5	99,000.00	1.25%	1.27%	10/14/16	10/15/19	97,524.90
	Certificate of Deposit	GE Capital Bank UT	36162YF24	145,000.00	1.80%	1.81%	1/16/15	1/16/20	144,156.10
	Certificate of Deposit	Mercantile Comm Ban, FL	58733AEJ4	100,000.00	1.90%	1.92%	8/15/17	3/2/20	98,904.00
	Certificate of Deposit	BMW Bank NA, UT	05580AHL1	198,000.00	1.80%	1.83%	4/12/17	4/21/20	195,180.48
	Certificate of Deposit	Wells Fargo Bk Na Sd Us	94986TTT4	197,000.00	1.25%	2.00%	4/30/15	4/30/20	196,808.91
	Certificate of Deposit	Washington Trust, RI	940637HX2	99,000.00	1.45%	1.48%	11/18/16	5/18/20	96,923.97
	Certificate of Deposit	Comenity Bank, DE	981996XS5	100,000.00	2.30%	2.33%	6/30/15	7/1/20	98,777.00
	Certificate of Deposit	World's Foremost B, NE	9159919E5	200,000.00	2.30%	2.34%	8/6/15	8/6/20	196,954.00
	Certificate of Deposit	Merrick Bk, UT	59013JHE2	149,000.00	1.90%	1.93%	8/20/15	8/20/20	146,352.27
	Certificate of Deposit	Morgan Stanley Bk, UT	61747MCG96	245,000.00	2.45%	2.48%	1/18/18	1/25/21	242,177.60
	Certificate of Deposit	JP Morgan Chase, OH	48125YZB3	200,000.00	1.25%	1.52%	1/26/16	2/10/21	197,538.00
	Certificate of Deposit	Synchrony Bank, UT	87164XLH7	94,000.00	1.70%	1.74%	2/25/16	3/4/21	91,595.48
	Certificate of Deposit	BLC Comenity Bank, WI	05549CGN4	198,000.00	2.00%	2.05%	11/13/17	5/28/21	192,808.44
	Certificate of Deposit	Webbank, UT	947547KC8	200,000.00	3.00%	3.00%	5/18/18	5/28/21	199,874.00
	Certificate of Deposit	Barclays Bank, DE	06740KKC0	100,000.00	2.00%	2.06%	7/12/17	7/12/21	97,214.00
	Certificate of Deposit	Comenity Cap Bank UT	20033AUX2	245,000.00	2.00%	2.06%	7/16/17	7/16/21	238,113.05
	Certificate of Deposit	UBS Bank, UT	90348JAU4	50,000.00	1.50%	1.57%	7/20/16	7/20/21	47,848.00
	Certificate of Deposit	Synchrony Bank, UT	87164XNA0	50,000.00	1.45%	1.52%	7/22/16	7/22/21	47,836.50
	Certificate of Deposit	Peoples Sec B&T Co, PA	712303AA4	100,000.00	3.01%	3.01%	8/20/18	8/31/21	99,805.00
	Certificate of Deposit	Medallion Bk, UT	58403B5Q5	198,000.00	2.05%	2.12%	12/5/16	12/16/21	191,572.92
	Certificate of Deposit	Mercantile Comm Bank	58733ADT3	150,000.00	2.10%	2.17%	1/27/17	1/27/22	145,138.50
	Certificate of Deposit	Texas Exchange Bank, TX	88241TBD1	150,000.00	2.25%	2.32%	3/28/17	3/28/22	145,549.50
	Certificate of Deposit	First National Bank of McGregor, TX	36A99U934	145,000.00	2.35%	2.39%	12/20/18	6/20/22	142,337.80
	Certificate of Deposit	Bank of New England, NH	06426KAL2	246,000.00	3.15%	3.15%	7/17/18	7/28/22	245,667.90
	Certificate of Deposit	First Bank Highland, IL	319141HN0	247,000.00	2.20%	3.15%	9/7/17	9/7/22	237,905.46
	Certificate of Deposit	Capital One Bank	1404205H9	99,000.00	2.30%	2.38%	10/4/17	10/4/22	95,629.05
	Certificate of Deposit	Belmont Svgs Bk, MA	080515CH0	200,000.00	2.70%	2.76%	2/13/18	2/28/23	195,358.00
	Certificate of Deposit	Citibank, NA SD	17312QJ26	200,000.00	2.90%	2.95%	4/2/18	4/11/23	196,814.00
	Certificate of Deposit	Toyota Financial Savings Bank, NV	89235MJAO	250,000.00	3.40%	3.39%	6/29/18	7/24/23	250,925.00
	Government Agency	FHLMC	3134G8VZ9	250,000.00	1.38%	1.41%	3/29/16	4/28/21	244,492.50
	Total UBS Financial Services Inc.			7,040,578.32					6,947,486.41

City of Clayton
Investment Holdings Summary
Quarter Ending: September 30, 2018


Investment Account	Investment Type	Institution	CUSIP	Carrying Value	Rate	Current Yield	Settlement Date	Maturity Date	Market Value
Morgan Stanley	Money Market Fund	Morgan Stanley	n/a	3,964.54	0.15%		n/a	n/a	3,964.54
	Certificate of Deposit	First Bank PR Santurce, PR	33767AUJ8	50,000.00	1.45%	0.49%	1/20/16	1/22/19	49,894.00
	Certificate of Deposit	Webster Bank, CT	94768NKJ2	100,000.00	1.35%	0.68%	1/20/16	1/28/19	99,881.00
	Certificate of Deposit	Homebank, NA	43738AFU5	200,000.00	1.50%	0.75%	3/30/15	3/29/19	199,620.00
	Certificate of Deposit	Ally Bank, UT	02006LZR7	100,000.00	1.20%	1.21%	4/14/16	4/15/19	99,545.00
	Certificate of Deposit	State Bank of India, ILL	856283YN0	198,000.00	1.65%	1.66%	5/28/15	5/28/19	197,172.36
	Certificate of Deposit	First Business Bank, WI	31938QL85	50,000.00	1.50%	1.51%	6/11/15	6/11/19	49,725.50
	Certificate of Deposit	Ally Bank, UT	02006LE66	148,000.00	1.25%	1.26%	6/23/16	6/24/19	146,783.44
	Certificate of Deposit	Barclays Bank, DE	06740KHK6	149,000.00	2.10%	2.11%	7/23/14	7/23/19	148,542.57
	Certificate of Deposit	American Express Bank FSB, UT	02587CAJ9	247,000.00	2.00%	2.01%	7/24/14	7/24/19	246,254.06
	Certificate of Deposit	BMW, UT	05580afa7	50,000.00	1.20%	1.22%	8/26/16	8/26/19	49,384.50
	Certificate of Deposit	Comenity Bank, DE	20099A7A9	100,000.00	2.10%	1.94%	8/27/14	8/27/19	99,329.77
	Certificate of Deposit	JPM, OH	48126XC8	48,000.00	1.25%	1.27%	8/31/16	8/31/19	47,407.68
	Certificate of Deposit	Capital One Bank, VA	140420QF0	130,000.00	2.15%	2.16%	10/16/14	10/16/19	129,402.00
	Certificate of Deposit	State Bk India, NY	8562842P8	50,000.00	2.25%	2.26%	8/27/14	10/17/19	49,851.50
	Certificate of Deposit	The Privatebank & Trust Co., IL	74267GUU9	100,000.00	1.90%	1.91%	1/23/15	1/23/20	99,374.00
	Certificate of Deposit	American Express Centurion Bank, UT	02587DXE3	47,000.00	1.95%	1.97%	1/30/15	1/30/20	46,549.27
	Certificate of Deposit	Peoples United Bank, CT	71270QML7	151,000.00	1.75%	1.77%	3/4/15	3/4/20	149,631.94
	Certificate of Deposit	Everbank, FL	29976DVV7	200,000.00	1.75%	1.78%	3/30/15	3/30/20	197,178.00
	Certificate of Deposit	CIT Bank, UT	17284DBM3	50,000.00	1.98%	2.03%	6/3/15	6/3/20	49,361.00
	Certificate of Deposit	Capital One NA McLean, VA	14042E4Y3	245,000.00	2.22%	2.28%	7/22/15	7/22/20	242,258.45
	Certificate of Deposit	Beneficial Mut, PA	08173QBT2	200,000.00	1.37%	1.39%	10/7/16	10/7/20	193,600.00
	Certificate of Deposit	Connectone England Cliffs, NJ	20786ACD5	100,000.00	2.60%	2.63%	3/28/18	3/29/21	99,048.00
	Certificate of Deposit	Townebank Portsmouth, VA	89214PBL2	200,000.00	2.80%	2.81%	4/19/18	4/30/21	198,954.00
	Certificate of Deposit	Wells Fargo, SD	9497485W3	50,000.00	1.77%	1.82%	6/17/16	6/17/21	48,134.00
	Certificate of Deposit	BAR HBR Bank & TR, ME	066851WF9	100,000.00	3.00%	3.00%	6/19/18	6/29/21	99,894.00
	Certificate of Deposit	1st Internet Bank Indianapolis, IN	32056GCP3	100,000.00	1.95%	2.01%	7/14/17	7/14/21	97,063.00
	Certificate of Deposit	Bank Hapoalim, NY	06251AU32	147,000.00	3.00%	3.01%	8/23/18	8/23/21	146,723.64
	Certificate of Deposit	First Bank PR Santurce, PR	33767A4K4	157,000.00	2.05%	2.11%	8/25/17	8/25/21	152,556.90
	Certificate of Deposit	Enerbank USA, UT	29266N3H8	50,000.00	1.48%	1.52%	8/26/16	8/26/21	47,748.50
	Certificate of Deposit	Privatebank, IL	74267GVM6	147,000.00	1.53%	1.57%	8/30/16	8/30/21	140,417.34
	Certificate of Deposit	Commercial Bank Harrogate, Tenn	20143PDR8	197,000.00	3.00%	3.01%	6/19/18	9/21/21	196,542.96
	Certificate of Deposit	Franklin Syn Bank, TN	35471TCV2	204,000.00	2.00%	2.07%	1/12/17	1/31/22	196,719.24
	Certificate of Deposit	Live Oak Banking, NC	538036CM4	97,000.00	2.25%	2.32%	4/7/17	4/7/22	94,092.91
	Certificate of Deposit	Commercial Savings Bank, IA	202291AD2	247,000.00	2.10%	2.19%	10/18/17	10/18/22	236,601.30
	Certificate of Deposit	Industrial & Coml, NY	45581EAR2	250,000.00	2.65%	2.72%	2/17/18	2/14/23	243,787.50
	Certificate of Deposit	Enerbank USA, UT	29278TCC3	100,000.00	3.20%	3.22%	7/31/18	7/31/23	99,455.00
	Government Agency	Federal Farm Credit Bank	3133EGEX9	200,000.00	1.67%	1.72%	6/9/16	6/14/21	193,636.00
	Government Agency	Federal Home Loan Bank	3130A8HH9	250,000.00	1.62%	1.67%	6/16/16	6/23/21	241,717.50
	Government Agency	Federal Home Loan Bank	3130AE6H8	200,000.00	3.15%	3.18%	5/3/18	5/2/23	197,910.00
	Total Morgan Stanley			5,412,964.54					5,325,712.37
Bank of America (book balance)	Cash (checking account)	Bank of America		425,287.73	0.00%	0.00%	n/a	n/a	425,287.73

Broker/ Institution	Carrying Value	Percentage of Portfolio	Weighted Average Yield to Maturity	W.A.M. (yrs)	Market Value
Local Agency Investment Fund (LAIF)	514,244	3.84%	2.16%	0.00	513,130
UBS Financial Services Inc.	7,040,578	52.57%	2.03%	2.16	6,947,486
Morgan Stanley	5,412,965	40.42%	2.05%	2.06	5,325,712
Bank of America (book balance)	425,288	3.18%	0.00%	0.00	425,288
Total investment Portfolio	13,393,075	100.00%	1.98%	1.97	13,211,616
2018-19 Budgeted Interest - General Fund	\$	88,200			
2018-19 Actual Interest Revenue to date (7/1/18 - 9/30/18)	\$	28,101			
Percent of General Fund Budget Realized		31.86%			
Quarterly Weighted Average Annual Yield*		1.98%			
2018-19 Total Pooled Investment Income To Date (7/1/18 - 9/30/18)	\$	65,773			

*This calculation excludes the City's non-interest bearing pooled checking account with Bank of America

I verify that this investment portfolio is in conformity with State laws and the City of Clayton's investment policy. The City's cash management program provides sufficient liquidity to meet the next six month's expenditures.

 10/18/18
Kevin Mizuno, Finance Manager Date

 11/8/18
Hank Stratford, City Treasurer Date

RESOLUTION NO. 42-2018

**A RESOLUTION AMENDING AND ADOPTING THE
INVESTMENT POLICY FOR THE CITY OF CLAYTON**

**THE CITY COUNCIL
City of Clayton, California**

WHEREAS, investment policies guide staff and its advisors for all investment activities on behalf of cities; and

WHEREAS, those investment activities are primarily governed by the individual city's adopted investment policies and by California state law (Government Code sections 53600-53610); and

WHEREAS, the Investment Policy for the City of Clayton is consistent with state law and, for the purpose of added safety and liquidity, is more restrictive than state law; and

WHEREAS, revisions to Government Code section 53646 require periodic review and approval of a city's investment policy only if there are changes, however it encourages cities to conduct an annual review and approval process even if there are no proposed changes; and

WHEREAS, the Clayton City Treasurer and City staff recommend a revision to the Investment Policy to section III "Delegation of Authority" and section VII (I) "Allowable Investments" adding the California Asset Management Program (CAMP).

NOW, THEREFORE, BE IT RESOLVED that the City Council of Clayton, California does herewith establish and approve the amended Investment Policy of the City, a true and correct copy of which is attached hereto as "Exhibit A" and incorporated herein by reference.

PASSED, APPROVED AND ADOPTED by the City Council of Clayton, California, at a regular public meeting thereof held on the 20th day of November 2018 by the following vote:

AYES: Mayor Haydon, Councilmembers Catalano, Diaz and Pierce.

NOES: None.

ABSTAIN: None.

ABSENT: Vice Mayor Shuey.

THE CITY COUNCIL OF CLAYTON, CALIFORNIA



By: Keith Haydon, Mayor

ATTEST:



Janet Calderon, City Clerk

INVESTMENT POLICY

CITY OF CLAYTON, CALIFORNIA

I. POLICY

It is the policy of the City of Clayton [and the Redevelopment Agency of the City of Clayton] {together, referred to as the "City"} to meet the short and long-term cash flow demands of the City in a manner which will provide for the safety of principal monies with sufficient liquidity, while providing a reasonable investment return. The purpose of this Investment Policy is to identify and outline various methods and procedures for the prudent and systematic investment of public funds.

II. SCOPE

This Investment Policy applies to all investment activities and financial assets of the City {hereinafter, the "Funds"}. The following Funds are covered by this Investment Policy and are accounted for in the City's Comprehensive Annual Financial Report:

- (A) General Fund
- (B) Special Revenue Fund
- (C) Debt Service Fund
- (D) Capital Project Funds
- (E) Enterprise Funds
- (F) Internal Services Funds
- (G) Trust and Agency Funds
- (H) Any new funds created by the City Council.

Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents. Bond proceeds are not considered part of the Funds nor subject to this Investment Policy.

III. DELEGATION OF AUTHORITY

The City Treasurer is expressly authorized to invest the City's Funds, pursuant to California Government Code Sections 53600, 16429.1 and 53684 et seq. The City Treasurer will meet with, and obtain the approval of, the City Manager prior to investment of the Funds. Investments made routinely by the Finance Manager are restricted to the State Pool [Local Agency Investment Fund, LAIF], California Asset Management Program (CAMP), or to securities maturing within six (6) months. Prior to investing in securities, the Finance Manager will consider the cash flow requirements of the City and may invest in securities maturing over six (6) months if directed by the City Treasurer or the City Manager in writing or verbally, if confirmed in writing within thirty (30) days.

IV. ASSIGNMENTS AND DUTIES

- A. **City Council.** The City Council is elected by the registered voters of Clayton. The Council establishes policies for the City and approves the expenditure of City Funds.
- B. **City Manager.** The City Manager is appointed by the City Council and implements policies established by the City Council. The City Manager is responsible for all City departments and is also the Chief Fiscal Officer and is responsible for general management of all investments of Funds.
- C. **City Treasurer.** The City Treasurer is appointed by the City Council and serves at the will and pleasure of the Council. Pursuant to the California Government Code, the City Treasurer is primarily responsible for the proper and prudent investment of Funds, and periodically reviews, makes recommendations regarding, and approves the investments of Funds and investment policies.
- D. **Finance Manager.** The Finance Manager is appointed by the City Manager and is responsible for the daily supervision of all financial transactions of the City, including but not limited to the administration, monitoring, reporting and the restricted placement of Fund investments.

Together, the City Treasurer, City Manager and the Finance Manager function and operate as a check-and-balance system for the prudent and proper investment of all Funds.

V. PRUDENCE

Investments shall be made pursuant to the “Prudent Investor” standard, mandated by California Government Code Section 53600.3, which states:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City. Within the limitations of this section and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law.”

The “Prudent Investor” standard shall be applied in the context of managing the Funds. The City Treasurer and each investment employee, acting within the intent and scope of this Investment Policy and other 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 manner and appropriate action is taken to control adverse developments.

VI. INVESTMENT OBJECTIVES

The objective of the investment portfolio is to meet the short and long-term cash flow demands of the City. To achieve this objective, the portfolio will be structured to provide Safety of Principal, Liquidity and Return on Investments.

A. Safety of Principal.

Safety of the City's investments is the primary objective. Investments of the Funds shall be undertaken in a manner that seeks to ensure that capital losses are minimized, whether from institution default, broker-dealer default, or erosion of the market value of securities. The City shall seek to preserve principal by mitigating two types of risk, in order of importance:

1. Credit Risk. Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by purchasing Treasuries or high-grade securities. All investments beyond Treasury securities will be diversified so that the failure of any one issuer would not unduly harm the City's cash flow. Credit risk shall also be mitigated by pre-qualifying financial institutions, broker-dealers, intermediaries and advisors with which the City does business.
2. Market or Interest Rate Risk. Interest rate risk is the risk 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 Funds so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The cash flow is updated on a daily basis and will be considered prior to investment of securities in order to limit the need to sell investments for liquidity purposes.

Long-term securities shall not be purchased for the sole purpose of short-term speculation. Securities shall not be sold prior to maturity with the following exceptions: 1). A declining credit security would be sold early to minimize loss of principal; 2). A security swap would improve the quality, yield, or target duration in the portfolio; or 3). Liquidity needs of the portfolio require the security be sold.

The weighted average maturity of the Funds is limited to three (3) years or less. Purchases of investments will be restricted to securities with a final stated maturity not to exceed five (5) years.

B. Liquidity.

Liquidity is the second most important objective of City investments. The Funds 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). Since all possible cash demands cannot be anticipated, the Funds will maintain a liquidity buffer and invest primarily in securities with active secondary or resale markets (dynamic liquidity).

C. Return on Investments.

Return on investment should be considered and maximized after the basic objectives of safety and liquidity have been met. The Funds shall be designed to attain a return on investments through budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

VII. AUTHORIZED INVESTMENTS

The investments set forth in this section are authorized investments pursuant to Section 53601 of the California Government Code and are herewith authorized investments for City Funds:

- A. The State of California Investment Pool, known as the Local Agency Investment Fund (LAIF);
- B. Passbook savings accounts, demand deposits;
- C. Certificate of Deposit placed with insured banks, savings and loans, or credit unions up to a maximum of \$250,000 per insured depository institution for each account ownership category;
- D. Bonds issued by the City, including bonds payable solely out of, controlled, or operated by the City or by an agency or authority of the City;
- E. United States Treasury notes, bonds bills 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;

- F. Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of the state; and/or
- G. Mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, or U. S. corporate bond of a maximum of five (5) years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A' or higher rating for the issuers debt, as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service.

Purchase of securities authorized by this subdivision may not exceed twenty percent (20%) of the City's surplus money that may be invested pursuant to this Section.

- H. Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the City may invest in government-sponsored enterprises.
- I. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive, and including but not limited to CAMP. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issued the shares shall have retained an investment adviser that meets all of the following criteria:
 - 1. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - 2. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
 - 3. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

For all other recommended investment of Funds by the City Treasurer and the City Manager, the City Council shall adopt the individual authorized instrument by resolution at a regular public meeting thereof.

VIII. PROHIBITED INVESTMENTS AND TRANSACTIONS

- A. The City shall not invest any Funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages or reverse purchase agreements.
- B. The City shall not purchase or sell securities on margin.
- C. The City shall not invest any Funds in any security that could result in zero interest accrual if held to maturity date.

IX. ALLOCATION OF INTEREST EARNINGS

When a single investment is made from a single Fund, interest on that investment is to be credited to that source Fund. When an investment represents multiple Funds, the interest shall be distributed based on the proportionate share of each Fund included in the aggregate investment.

When investments result in interest paid for a period greater than one (1) month, the interest shall be distributed proportionately based on the average of the monthly beginning balances of each involved Fund.

X. DIVERSIFICATION

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. In a diversified portfolio it is recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

XI. PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize the investment portfolio is subject to public review, scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the highest ideals of the public trust.

XII. ETHICS AND CONFLICTS OF INTEREST

The City Treasurer and other employees or elected officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. The City Treasurer and investment employees and elected

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 and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

During the course of the year, if there is an event subject to disclosure that could impair the ability of the City Treasurer or investment employees to make impartial decisions, the City Council shall be notified in writing within ten (10) days of the event.

XIII. REPORTING REQUIREMENTS

The Finance Manager shall submit a quarterly investment report to the City Council. This report will include the following elements:

- A. Type of each investment.
- B. Financial institution.
- C. Date of Maturity.
- D. Amount of deposit or cost of security.
- E. Current market value of securities.
- F. Rate of Interest
- G. Weighted average maturity of the investments.

XIV. INTERNAL CONTROLS

The City Manager shall ensure the development of a system of internal investment controls and a segregation of duties and responsibilities of investment functions in order to assure an adequate system of internal control over the investment function. This segregation of duties will take into account the authorized staffing levels of the City. Internal control procedures shall address wire controls, separation of duties, delivery of securities to a third party for custodial safekeeping, and written procedures for placing investment transactions.

XV. GENERAL FUND RESERVE CONTINGENCY

The City Manager shall set aside Funds designated as *General Fund Reserve Contingency (GFRC)* to protect the City from unexpected financial expenses and to absorb the impact of deficiencies in cash flow not anticipated at the time the fiscal year budget was adopted.

The General Fund Reserves of the City shall include \$250,000.00 (two hundred fifty thousand dollars) designated as *GFRC – Emergency Component*. Further, the City will make every effort to maintain a *GFRC*, cash flow component, in an amount not less than fifty percent (50%) of the adopted annual General Fund budget. The amounts of

the *GFRCs* will be reviewed annually prior to adoption of the General Fund budget. City Council approval shall be required for any expenditure that would decrease the amount of the *GFRC* below the level established at the time of budget adoption.

XVI. POLICY REVIEW

The Investment Policy shall be reviewed at least annually by the City Treasurer and the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return on investments, along with its relevance to current law, financial and economic trends, and meets the needs of the City.

* * * * *

Established:	30 July 2002
City Council adopted revisions:	21 April 2015 03 August 2010 05 May 2005 06 August 2002 21 April 2015 20 November 2018

CAMP

CALIFORNIA ASSET
MANAGEMENT PROGRAM

JOINT POWERS AUTHORITY

50 California Street, Suite 2300

San Francisco, CA 94111

Tel: (800) 729-7665 Fax: (415) 982-4513

www.camponline.com

Introduction to the California Asset Management Program

- The California Asset Management Program (“CAMP”) is a California Joint Powers Authority established in 1989 to provide California public agencies with professional investment services
- Current investment and service options offered through CAMP include:
 - S&P “AAAm” rated Cash Reserve Portfolio (Pool)*
 - Individual Portfolios
 - Specialized services for bond proceeds
 - Investment and safekeeping services

** Standard & Poor’s fund ratings are based on analysis of credit quality, market price exposure, and management. According to Standard & Poor’s rating criteria, the AAAM rating signifies excellent safety of investment principal and a superior capacity to maintain a \$1.00 per share net asset value. However, it should be understood that the rating is not a “market” rating nor a recommendation to buy, hold, or sell the securities. For a full description on rating methodology, visit Standard & Poor’s website (http://www.standardandpoors.com/en_US/web/guest/home).*

Introduction to the California Asset Management Program

The Cash Reserve Portfolio offers:

- Same-day liquidity (11:00 a.m. PST cut-off for wires)
- Competitive yield
- Interest paid monthly
- Zero out of pocket expenses
- Unlimited transactions via wire, ACH, or check
- No minimum investment
- Online account management
- Option to open multiple sub-accounts

Introduction to the California Asset Management Program

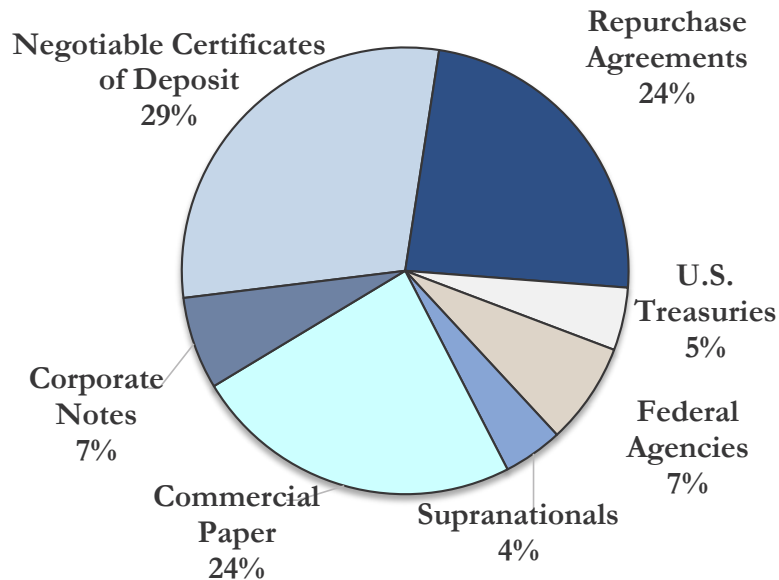
The Cash Reserve Portfolio is ideal for:

- Operating funds
- Capital reserves
- Funds requiring separate accounting
- Proceeds of debt issues

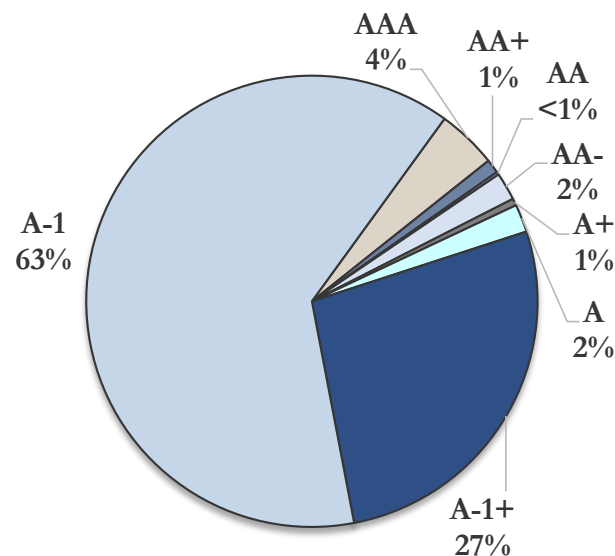
Cash Reserve Portfolio Characteristics as of September 30, 2018

Total Fund Net Assets ¹	\$3,594,299,355	Weighted Average Maturity	31 Days
7-Day Net Yield ²	2.19%	Net Asset Value per Share	\$1.00

Portfolio Sector Composition



Portfolio Credit Quality Distribution*



Percentages may not total to 100% due to rounding.

1. Total fund net assets, portfolio holdings valued at amortized cost, trade date based.

2. As of September 30, 2018. The seven-day net yield of the CAMP Cash Reserve Portfolio may, from time to time, be quoted in reports, literature and advertisements published by the Trust. The seven-day net yield, also known as the current annualized yield, represents the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical account with a balance of one share (normally \$1.00 per share) over a seven-day base period expressed as a percentage of the value of one share at the beginning of the seven-day period. This resulting net change in account value is then annualized by multiplying it by 365 and dividing the result by 7. Past performance is not indicative of future results and yields may vary.

* Ratings by Standard & Poor's

Pooled Investment Comparison

- Features of each pool vary depending on the type of investment selected, and should be carefully reviewed before investing

CAMP ¹	
Net Asset Value (NAV)	Stable
S&P Rating	AAAm
Weighted Average Maturity	31 days
Interest Payment Frequency	Monthly

LAIF ²	
Net Asset Value (NAV)	Stable
S&P Rating	Not Rated
Weighted Average Maturity	193 days
Interest Payment Frequency	Quarterly

1. Source: CAMP website. As of September 30, 2018. Please see important disclosures at the end of this presentation.

2. Source: LAIF website. Weighted average maturity is as of September 30, 2018.

3. Updated monthly.

CAMPonline.com

The CAMP website is available to provide shareholders with online account management capabilities as well as detailed information on CAMP-specific updates

Available Online

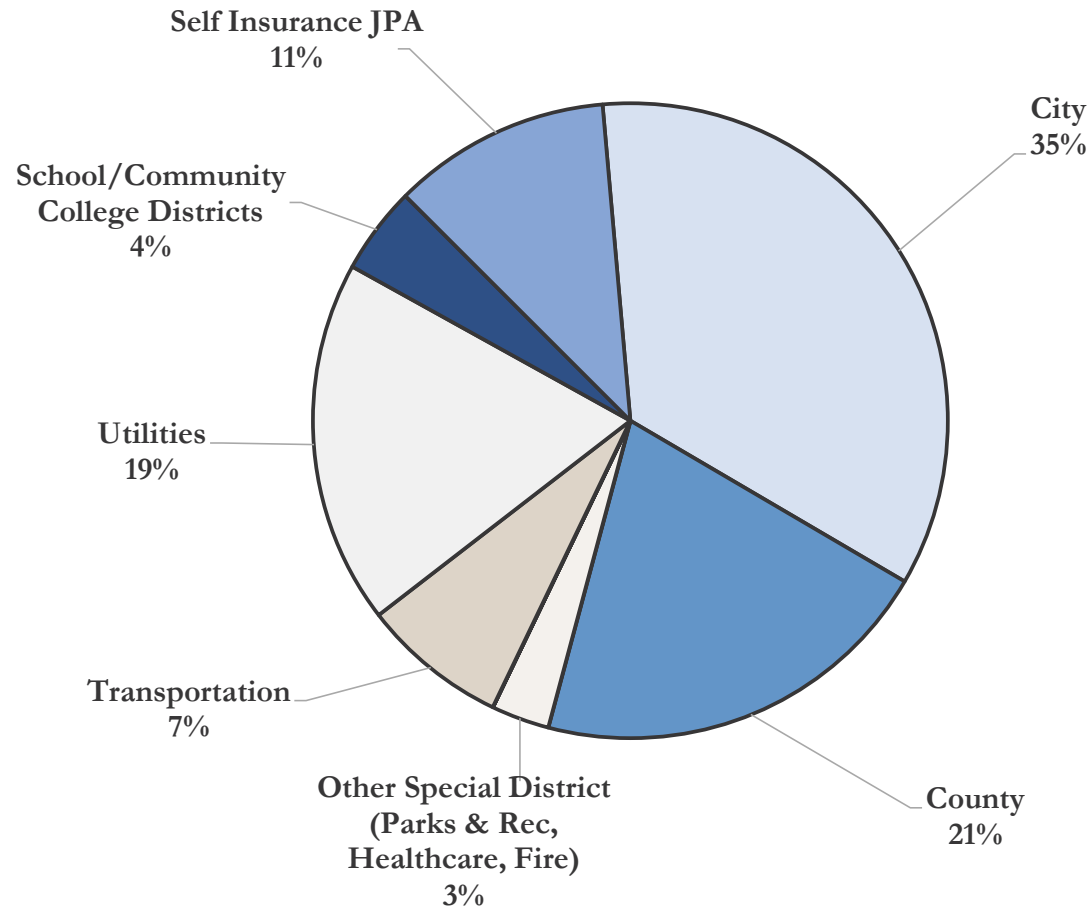
- Program information
- Rates, updated daily
- Program enrollment information

Available Online for Participants and Investors

- Account information, updated daily
- On-line transactions
- Statements
- Reporting

Shareholders by Type

CAMP Shareholders



1. As of March 31, 2018. Percentages are based on number of Shareholders.

A Program Governed By Those It Serves

The Board of Trustees comprises local government finance directors, treasurers, and executive directors



As of September 30, 2018.

Professional Service Providers

The Board of Trustees has contracted for all services with leading national firms

Services	Service Provider
Investment Advisor	PFM Asset Management LLC
Custodian	U.S. Bank National Association
Auditor	Ernst & Young, LLP
Legal Counsel	Nossaman LLP

Dedicated Service Team and Customer Service Phone Line



Jeremy King

Key Account Manager



Rachael Miller

Client Consultant



Shelly Ilgenfritz

Client Service Representative

Sarah Meacham

Program Administrator

213-415-1631

meachams@pfm.com

CAMP
(800) 729-7665

Christopher Presley

Relationship Manager

415-393-7262

presleyc@pfm.com

How to Join CAMP

- There is no minimum initial investment or account balance to invest in the Cash Reserve Portfolio
- Public agencies are welcome to invest as either a Participant or as an Investor
- CAMP's membership comprises 65% Participants and 35% Investors¹

	Participants	Investors
Join CAMP!	Complete resolution & account application	Complete account application
Earn competitive yield	✓	✓
Same-day transactions	✓	✓
Vote in annual proxy²	✓	–
Eligible for board membership	✓	–

1. As of August 21, 2018.

2. Proxy voters decide on CAMP investment policy and approve board members.

Disclaimer

*This information is for institutional investor use only, not for further distribution to retail investors, and does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the Trust's investment objectives, risks, charges and expenses before investing in the Trust. This and other information about the Trust is available in the Trust's current Program Guide, which should be read carefully before investing. A copy of the Trust's Program Guide may be obtained by calling 1-800-729-7665 or is available on the Trust's website at www.camponline.com. While the Trust seeks to maintain a stable net asset value of \$1.00 per share, it is possible to lose money investing in the Trust. An investment in the Trust is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Shares of the Trust are distributed by **PFM Fund Distributors, Inc.**, member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC.*

PFM Asset Management LLC ("PFM") serves as CAMP's Program Administrator, Investment Adviser and Rebate Calculation Agent. PFM specializes in meeting the investment needs of public agencies. PFM is registered as an investment adviser with the Securities and Exchange Commission ("SEC") under the Investment Advisers Act of 1940.