City of San Marino Investment Policy

1.0 Policy

It is the policy of the City of San Marino to invest public funds in a manner which will provide, in priority order, safety of principal, liquidity adequate to meet the daily cash flow demands of the City and return on investment to the highest extent possible, while conforming to all state and local statutes governing the investment of public funds. It is the City's intent at the time of purchase to hold to maturity all investments to ensure the return of all invested principal dollars.

2.0 Scope

This investment policy applies to all financial assets of the City with the exception of any future bond funds and funds held in trust for the payment of employee retiree health benefits and employer pension contributions, which will be invested according to the applicable bond and trust documents. San Marino's funds are accounted for in the City's Annual Comprehensive Financial Report (ACFR) and include:

2.1 General Fund
2.2 Special Revenue Funds
2.3 Debt Service Fund
2.4 Capital Projects Fund
2.5 Internal Service Fund
2.6 Agency Fund

3.0 Prudence

Investment officials are acting as trustee in a fiduciary capacity. The standard of prudence to be used by investment officials shall be the "prudent person" and "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy 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 appropriate action is taken to control adverse developments.

The prudent investor standard as set forth in Section 53600.3 of the Government Code is as follows. "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, 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 agency."

4.0 Objectives

The primary objectives, in priority order, of the City of San Marino's investment activities shall be:

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments of the City of San

Marino shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk (which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer) and interest rate risk (which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates). To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

4.2 Liquidity

The City of San Marino's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investments

The City of San Marino's investment portfolio shall be designed with the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City's investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

Authority to manage the City's investment program is derived from the San Marino Municipal Code Section 02.06.04 and the California Government Code Sections 16429.1 et seq. (Article 11 of Chapter 2 of Part 2 of Division 4 of Title 2), 41001 et seq. (Chapter 3 of Part 3 of Division 3 of Title 4), 53600 et seq. (Article 1.0 of Chapter 4 of Part 1 of Division 2 of Title 5), and 53630 et seq. (Article 2.0 of Chapter 4 of Part 1 of Division 2 of Title 5) including without limitation Section 53646. The City Council hereby delegates to the Treasurer the authority to invest and reinvest City funds. The Treasurer, with the assistance of the City Manager and Finance Director, shall be responsible for assuring that all investments are made in conformance with this policy and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Treasurer.

5.1 Investment Procedures

The Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The Procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial investment decisions. The Treasurer and Finance Director are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission. Furthermore, the Treasurer and Finance Director must refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the City.

7.0 Authorized Financial Dealers and Institutions

The Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the City in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The Treasurer shall investigate dealers who wish to do business with the City to determine if they are adequately capitalized, are knowledgeable and experienced in public agency investing and in the investment products involved, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the City's needs. All financial institutions and broker/dealers who desire to conduct investment transactions with the City must supply the Treasurer with the following: audited financial statements; proof of National Association of Securities Dealers certification; trading resolution; proof of State of California registration; complete broker/dealer questionnaire; and certification of having read the City's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer or Finance Director. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

No public funds shall be deposited except in a qualified public depository as established by state laws.

Whenever possible, the Treasurer shall obtain a minimum of two quotations, and preferably three, prior to entering into an investment transaction. The Treasurer will transact at the price that is most advantageous to the City and meets investment requirements.

8.0 Authorized & Suitable Investments

The City of San Marino is empowered by statute, and further limited herein to invest in the following types of securities:

8.1 United States Treasury Bills, Bonds and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest [Government Code Section 53601(b)]. There shall be no maximum allowable investment in U.S. Treasuries.

8.2 Securities issued and backed as to payment by one of the following U.S. Government-Sponsored Enterprises (GSE's): the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC) [Government Code Section 53601(f)]. No more than 20% of the portfolio may be invested in these GSE securities.

8.3 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. [Government Code Section 53601(i)]. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the City's portfolio.

8.4 Certificates of Deposit placed through a placement service in compliance with California Government Code Sections 53601.8 and 53635.8. The statute limits total portfolio investments in CDs placed through a placement service to no more than 30% of the portfolio.

8.5 Non-Negotiable Certificates of Deposit purchased directly from financial institutions [Government Code Section 53630 et. seq.]. Non-negotiable CDs are allowable up to insured limits.

8.6 Local Government Investment Pools

Local Agency Investment Fund (LAIF)

The State of California Local Agency Investment Fund (LAIF) is an authorized investment pool for surplus funds [Government Code Section 16429.1]. The maximum amount of the City's portfolio permitted to be invested in LAIF is the maximum amount for any one depositor as determined by LAIF, which is currently $75 million.

Other Local Government Investment Pools

Investment in County- and JPA-sponsored investment pools is authorized under Government Code Sections 53684 and 53601(p), respectively. A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. Best efforts will be made to acquire the following information:

- A description of eligible investment securities, and a written statement of investment policy and objectives
- A description of interest calculations and how it is distributed, and how gains and losses are treated
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed
- A schedule for receiving statements and portfolio listings
- A statement of how/if reserves and retained earnings are utilized by the pool/fund
- A fee schedule, including when and how it is assessed
- A statement of the eligibility of the pool/fund for bond proceeds and whether or not bond proceeds will be accepted

No more than 10% of the total portfolio shall be invested in local agency investment pools other than LAIF, and the City's investment in any pool shall comprise no more than 5% of the market value of the total assets of the investment pool, measured at month end.

8.7 Money Market Mutual Funds

Per Government Code Section 53601(l), investments of surplus funds in money market mutual funds are authorized if the money market funds are diversified management companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. Minimum criteria for money market funds, as set forth in Section 53601 of the Government Code are as follows:

"[T]he company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations; or

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000)."

Total investment in money market mutual funds shall not exceed 20% of the City's total portfolio. Investment in any one money market fund shall not exceed 10% of the City's total portfolio. The City shall not invest in exchange-traded funds (ETFs).

Environmental, Social and Governance (ESG)

Investments may be prioritized in entities that support environmental, social, and governance (ESG) factors alongside traditional financial measures in the investment decision-making process, ensuring that investments are financially prudent, and impact driven. Investing in companies that prioritize conservation and sustainable business practices helps protect our environment for future generations, and is commensurate with the City's values. ESG factors may include, but are not 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.

9.0 Review of Investment Portfolio

The securities held by the City must be in compliance with Section 8.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 8.0 Authorized and Suitable Investments subsequent to the date of purchase, the Treasurer should at least annually review the portfolio to identify those securities that do not comply. The Treasurer should establish procedures to report to the City Council and to its oversight committee, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

10.0 Collateralization

Collateralization will be required on one type of investment: certificates of deposit. To anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for certificates of deposit.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

11.0 Safekeeping and Custody

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third-party bank trust department which is located in California, acting as agent for the City under the terms of a custody agreement. All trades executed by a dealer will settle *delivery-vs-payment* through the City's safe keeping agent. Securities held in custody for the City shall be evidenced by safekeeping receipts and independently audited on an annual basis to verify investment holdings.

12.0 Diversification

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 30% of the City's total investment portfolio will be invested in a single security type.

13.0 Maximum Maturities

To the extent possible the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not purchase investments with maturities exceeding five years from the date of purchase.

14.0 Internal Controls

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, fraud or misuse.

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

15.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

15.1 Market Yield

The City of San Marino's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the weighted average maturity or duration of the City's portfolio. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

16.0 Reporting

The Treasurer shall review and render monthly reports to the City Council of all cash and investments held by the City.

The report shall include the following information for all cash accounts and bank deposits:

- Balance at the end of the month
- Interest rate (for all interest-bearing active deposits)

The report shall include the following information for all investments:

- A listing of individual securities held at the end of the month, by security type;
- Issuer, date of maturity, date of purchase, par and the dollar amount invested;
- Coupon, discount or earnings rate; and
- Current market value as of the date of the report and the source of this same valuation; and
- The weighted average maturity and weighted average yield of all investments combined.

The above information may be submitted in the form of copies of statements received by the custodial institution. For investments with LAIF, the most recent statement or statements received from the State Treasurer may be included in the monthly report in lieu of the information noted above.

The report shall include a listing of all investment transactions for the month [Government Code Section 53607], and must also include a statement of compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, as well as a statement denoting the ability of the local agency to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money shall or may not be available [Government Code Section 53646].

Reports shall be rendered to the City Council and City Manager within 30 days following the end of the month of the period covered by the report.

17.0 Investment Policy Adoption

The City of San Marino's investment policy shall be adopted by a resolution of the City Council and shall be reviewed annually by the City Council. Any modifications made thereto must be approved by the City Council.

The Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City.

18.0 Glossary of Terms

Accrued Interest – Interest earned but not yet received.

Agencies – Federal agency securities and/or Government-sponsored enterprises (GSE) which include Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Association (Farmer Mac).

Amortization – An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Annual Comprehensive Financial Report (ACFR)-The official annual report of the City. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed statistical section.

Basis Point – One basis point is one hundredth of one percent (.01).

Benchmark – A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bond – A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Broker – A broker brings buyers and sellers together for a commission.

Book Value – The value at which an investment is shown on the holder's balance sheet. For Debt securities, book value is acquisition cost less amortization of premium or accretion of discount.

Certificate of Deposit (CD)- A time deposit with a specific maturity evidenced by a Certificate. Large denomination CD's are typically negotiable.

Collateral-Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Coupon – The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. A certificate attached to a bond evidencing interest due on a payment date.

Custody – A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment – Delivery of securities with a simultaneous exchange of money for the securities.

Discount – The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Diversification – Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration – The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serves as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent. The fulcrum of a bond's present value cash flow time line.

Federal Reserve System – The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and several thousand member commercial banks.

Interest Rate – The annual yield earned on an investment, expressed as a percentage.

Liquidity – Refers to the ability to rapidly convert an investment into cash without substantial loss of value.

Local Government Investment Pool- The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value – The price at which a security is trading and could presumably be purchased or sold.

Maturity – The date upon which the principal or stated value of an investment becomes due and payable.

Money Market-The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

New Issue – Term used when a security is originally brought to market by its issuer.

Portfolio – Collection of securities held by an investor.

Primary Dealer – A brokerage firm designated as a primary government dealer by the Federal Reserve Bank. These firms submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Prudent Person Rule – When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, 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 agency.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market – A market made for the purchase and sale of outstanding issues following their original offering as a "new issue".

Treasury Bills – A noninterest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds – Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

Treasury Notes – Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

Yield – The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity – The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.