OAKLEY
CALIFORNIA

STAFF REPORT

DATE: September 14, 2021

Approved and Forwarded to the City Council

TO: Joshua McMurray, Interim City Manager

FROM: Tim Przybyla, Finance Director

SUBJECT: Consideration of a Resolution Approving the City's Investment Policy for Fiscal Year 2021/2022 and Authorizing the Interim City Manager to Execute an Agreement with PFM Asset Management LLC (PFMAM) for Investment Portfolio Management Services

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Background and Analysis

California Government Code Section 53646 and good financial practice recommends that local agencies prepare a written investment policy and that the governing body review and approve the policy on an annual basis. The attached proposed investment policy for Fiscal Year 2020/2021 includes revisions that will increase the safety of the City's funds, increase investment opportunities for the City, and allow for increased active management of the City's funds. The primary revisions include additions to the City's listing of authorized and acceptable investments with their respective maximum limits as well as the California Government Code that permits them. With these changes, the City's policy is the same as or more restrictive with its investments as the State Code.

The Policy being presented incorporates all sections and information as recommendation by the Association of Public Treasurers of the United States and Canada and the California Municipal Treasurers Association, for Fiscal Year 2020/2021. It identifies Safety, Liquidity and Return on Investment, in that order, as the City's Investment objectives; incorporates the "prudent investor" standard; and limits investments to those specifically approved by Government Code.

Currently, Investments of funds for operations remain in short term holdings in State Treasurer's Local Agency Investment Fund (LAIF), CalTRUST, and deposits with Wells Fargo (the City's primary bank). However, with the actions that the Federal Reserve has taken over the past year and a half to boost the economy, overnight investment accounts are offering very low yields. Looking ahead, we may need to look at other acceptable investments to safely provide a better rate of return. Changes proposed in this Policy set the guidelines for consideration of such investment decisions.

The 2021/2022 Investment Policy includes updates to the 2020/2021 Policy to provide clarity, to better organize the Policy, and to add information and sections as recommended by the Association of Public Treasurers of the United States and Canada and the California Municipal Treasurers Association. The Investment Policy revisions also include changes that are recommended when an entity engages with an outside firm to help manage its investment portfolio.

The City's Finance Director and Accounting Manager have worked with PFMAM through various organizations. PFMAM is a very reputable firm and staff believes that they will provide exceptional service to help us enhance our investment program over time. PFMAM's fees are reasonable and consistent with the industry standard, and staff is recommending that the City enter into a contract for them to provide such services for the City of Oakley.

With the recent drops in the rate of return that the Local Agency Investment Fund (LAIF) is providing and with the yield curve for longer-term investments gradually increasing, staff thought that the timing is right to set up this process to expand our investment options. PFMAM has presented a proposal and described their services and investment approach with staff, and staff believes that the additional earnings that we will receive through having PFMAM manage our investments will far exceed the minimal fees that they charge (between 0.08% and 0.10% on assets under their management, per annum).

Staff's initial recommendation will be to move $30 million of the City's roughly $75 million into the managed portfolio. That would amount to less than $30,000 per year of fees and would not require City Council approval, as the City Manager can approve contracts up to $50,000. However, at some point in the future, it's possible that our fees could exceed $50,000 per year, with higher balances being managed. Therefore, staff is seeking authorization from the City Council to have the Interim City Manager execute the agreement with PFMAM. Earnings are and will continue to be reported net of fees. Therefore, approval of this agreement will not require a budget amendment, as the fees paid to PFMAM will come out of the additional earnings that we receive.

Fiscal Impact

There is no direct fiscal impact of adopting this resolution approving the City's Investment Policy for Fiscal Year 2021/2022 and authorizing the Interim City Manager to execute the agreement with PFMAM.

Staff Recommendation

Staff recommends the Council adopt the attached Resolution Approving the City's Investment Policy for Fiscal Year 2021/2022 and Authorizing the Interim City Manager to Execute an Agreement with PFM Asset Management LLC (PFMAM) for Investment Portfolio Management Services.

Attachments
1. Statement of Investment Policy
2. Resolution
3. Agreement
4. Brochure

CITY OF OAKLEY
STATEMENT OF INVESTMENT POLICY

1. Purpose:

This statement provides guidelines for the prudent investment of the temporary idle cash of the City of Oakley (hereafter referred to as City), and outlines the policies for maximizing the efficiency of the City's cash management system. The goal is to enhance the economic status of the City while protecting its pooled cash.

2. Scope:

This Investment Policy (Policy) applies to all financial assets of the City. For purposes of this Policy, the City of Oakley includes the City, as Successor Agency to the Oakley Redevelopment Agency, and the Oakley Financing Authority, which are component units of the City of Oakley, controlled by the City Council, share the same administrative services of the City, and are "related entities" of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

General Fund
Special Revenue Funds
Debt Service Funds
Capital Project Funds
Internal Service Funds
Trust and Agency Funds

The investment of bond proceeds held with trustees is directed by the City, but is governed by the restrictions on permitted investments in the applicable bond indenture or similar agreements.

The City retirement plans are with the California Public Employees Retirement System, and the City has no authority or oversight over the investments in any of the plans. Further, the City administers a deferred compensation plan through the ICMA-Retirement Corporation (ICMA-RC). Assets held in the ICMA plan are held in trust for the participants, and are not assets managed by the City. The City does not have any authority over the investments held in these trusts.

3. Policy:

The City's cash management system should accurately monitor and forecast expenditures and revenues and allow the City to invest funds to the fullest extent possible, subject to the City's investment objectives, as described below.

4. Objectives:
The primary objectives, in priority order, of the City's investment activities shall be:

4.1. Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required (as described in more detail in Sections 9 and 12 of this Policy)..

4.2. Liquidity: The City'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 investment: The City's 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 the cash flow characteristics of the portfolio.

5. Prudence
In accordance with California Government Code ("CGC") §53600.3, the Finance Director and/or his designee, who are authorized to make investment decisions on the City's behalf, are trustees and therefore fiduciaries subject to the "prudent investor standard":

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with the 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."

6. Delegation of Authority:
Authority to manage the City's investment program is derived from the California Government Code Sections 53600 through 53609. Management responsibility for the investment program is hereby delegated to the Finance Director (Director), who shall establish written procedures for the operation of the investment program consistent

with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. 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 established procedures. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Director may also delegate investment decision making and execution authority to an investment advisor. The advisor shall follow the Investment Policy and such other written instructions as are provided.

7. Ethics and Conflicts of Interest:
The investment responsibility carries with it the added duties of ensuring that investments placed are done so without the appearance of improper influence. Finance personnel involved in the investment function shall adhere to the state's Code of Economic Interest and to the following:

7.1. All persons authorized to place or approve investments shall annual submit a Statement of Economic Interest, also known as the Form 700. The Form 700 provides necessary information to the public about an official’s personal financial interests to ensure that officials are making decisions in the best interest of the public and not enhancing their personal finances. Additional guidance on disclosing potential conflicts of interest is available on the California Fair Political Practices Commission website.

7.2. Maintaining the Public Trust: All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City of Oakley's ability to govern effectively.

8. Authorized Financial Dealers and Institutions:
Should the City engage in investments outside of the use of savings, money market funds, and policy compliant investment pools (LAIF and CalTrust, etc.), the Director will establish and maintain a list of financial institutions authorized to provide investment services, and a list of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange

Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions on the Director's list, must supply the Director with the following: Proof of National Security Dealers certification, trading resolution, proof of State of California registration, personal resume, certification of having read the City's investment policy, and depository contracts. In addition, a current audited financial statement is required to be on file for each financial institution and broker/dealer through which the City invests.

At a minimum, the task of maintaining a list of financial institutions and approved security broker/dealers shall include the Director's annual review of the financial condition and registrations of qualified bidders.

Before engaging in investment transactions with a broker/dealer, the Director shall have received from said firm a signed letter, attesting that the individual responsible for the City's account with that firm has reviewed the City of Oakley's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the City that are appropriate under the terms and conditions of the Investment Policy.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker-dealers to conduct transactions on behalf of the City.

Purchase and sale of securities will be made on the basis of competitive bids and offers with a minimum of three quotes being obtained, when practicable.

9. Authorized & Suitable Investments:

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the investments permitted by the Government Code, the City seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. The maximum allowable percentage limits and minimum credit quality requirements listed below apply at the time the security is purchased.

Credit criteria listed in this section refers to the credit quality of the issuing organization at the time the security is purchased. In the event of a downgrade below the minimum credit rating requirements listed below, the investment advisor, if so designated, must notify the Finance Director of such downgrade within 15 days of the downgrade and will use their best professional judgment to determine the appropriate course of action.

Within the context of such limitations, the following investments are authorized, subject to the restrictions and limitations below:

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM ALLOWABLE % OF PORTFOLIO	MINIMUM CREDIT QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations—CA and Others	5 years	None	"A" or equivalent by an NRSRO	53601(d)
CA Local Agency Obligations	5 years	None	"A" or equivalent by an NRSRO	53601(e)
U.S Agency/Government Sponsored Enterprise Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%	None	53601(g)
Commercial Paper—Non-Pooled Funds	270 days or less	25%	"A-1" or equivalent by an NRSRO	53601(h)
Commercial Paper—Pooled Funds	270 days or less	40%	"A-1" or equivalent by an NRSRO	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%	"A" or equivalent by an NRSRO	53601(i)
Placement Service Certificates of Deposit	5 years	50%	FDIC or NCUA coverage	53601.8 and 53635.8
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.

Medium-Term Notes	5 years	30%	"A" or equivalent by an NRSRO	53601(k)
Mutual Funds	N/A	20% (10% per fund)	"AAA" or equivalent by two NRSROs or investment advisor requirements	53601(l)(1)
Money Market Mutual Funds	N/A	20%	"AAA" or equivalent by tow NRSROs or investment advisor requirements	53601(l)(2)
Asset-backed securities	5 years	20%	"AAA" or equivalent by an NRSRO	53601(o)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Shares of beneficial interest in a Joint Powers Authority (e.g. Investment Trust of California (CalTRUST) or California Asset Management Program (CAMP))	N/A	None	None	53601(p)
Supranational Obligations	5 years	30%	"AA" or equivalent by an NRSRO	53601(q)

NRSRO = Nationally Recognized Statistical Ratings Organization

Prohibited Investments: Under the provisions of Government Code Sections 53601.6 and 53631.5, the City shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

Notwithstanding the prohibitions in the above paragraph, the City may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. The City may hold these instruments until their maturity dates.

10. Collateralization:

Collateralization will be required on investments in certificates of deposit (excluding negotiable certificates of deposit) over $250,000. Repurchase agreements are authorized and suitable investments, per California Code. However, the City does not choose to include them in its list of authorized and suitable investments, at this time. If repurchase agreements were included in the list, they would also require collateralization. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be one hundred two percent (102%) of market value of principal and accrued interest.

Collateral must be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

11. Safekeeping and Custody:

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Director and evidenced by safekeeping receipts.

12. Diversification:

The City will diversify its investments by security type and institution. Except as provided below, no more than five percent (5%) of the City's portfolio may be invested in any one institution, regardless of sector. The types of investments which are excluded from this limitation are:

- United States Treasury and federal agency/government-sponsored enterprise obligations,
- Supranational obligations,
- Bank certificates of deposit,
- Other certificates of deposit, and
- Money market funds and other pooled investment vehicles, including LAIF and shares of a JPA.

13. Maximum Maturities:
To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless approved by the City Council at least three months prior to investment, the City will not directly invest in securities maturing more than 5 years from the date of purchase.

14. Reporting:
The Director is charged with the responsibility of including investment activities in the City's Comprehensive Annual Financial Report. Additionally, the Director shall provide a monthly listing of investment transactions and a quarterly investment report to the City Council.

The quarterly investment report shall include the following information for each individual investment: description of investment instrument, issuer name, maturity date, credit rating, coupon rate, yield, purchase price, par value, book value, current market value and the source of the valuation. The quarterly investment report shall also state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, and include a statement denoting the City's ability to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may or may not be available.

15. Investment Policy Review:
The City's investment policy shall be reviewed by the Finance Director and adopted by resolution annually by the City Council.

16. Other Constraints:
The City shall operate its investment portfolio within the many State and self-imposed constraints. It shall buy no stocks, shall not speculate, nor shall it deal in futures or options, or buy on margin. The City will not purchase inverse floaters, range notes, interest only strips or any security having an interest rate derived from an index, commodity price or other variable i.e. securities commonly known as derivatives.

17. Investment Pools/Mutual Funds
A thorough investigation of any pooled investment program and/or mutual fund is required prior to investing and on a continual basis. There shall be a questionnaire developed which will request the following information:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of how interest is calculated and 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, and what size of deposits and withdrawals are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves or retained earnings utilized?
- A fee schedule, and method for assessing fee
- Does the pool accept bond proceeds?

18. Internal Controls

The Finance Director is responsible for establishing and maintaining a system of internal controls to ensure that City assets are protected from loss arising from fraud, employee error, imprudent actions, theft or misuse, and to ensure compliance with this Policy, City-mandated procedures and federal and state laws. An internal control structure should include written procedures that encompass the following principles:

- Segregation of duties,
- Explicit delegation of authority and responsibility
- Timely reconciliation and balancing,
- Documentation, recording, and record keeping,
- • Management control and oversight,
- Dual or secondary authorization.

The control structure should cover timely projections of cash flow and funding needs, cash collection and disbursements, wire transfers, anti-theft and anti-fraud practices, depository and custody services, collateral management, broker/dealer services, trading and confirmation, and master repurchase agreements (if appropriate).

It should be designed to provide reasonable assurance that these objectives are met. 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.

The Finance Director shall establish an annual process for independent review of these controls, including cash and investment testing, by an external auditor. This review will help to ensure compliance with the City's investment policies and procedures.

19. Performance Standards

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

In evaluating the performance of the City's portfolio in complying with this Policy, it is expected that the City shall establish an appropriate performance benchmark and compare the total return of its portfolio to the total return of the benchmark.

The policy recognizes that reporting on a market basis will periodically cause market gains or losses to be reported. In most instances such gains or losses will not be realized since individual securities may be held to maturity. However, it is also recognized that in the course of managing the City's investment portfolio, realized losses may be incurred from time to time as part of an actively managed portfolio strategy if deemed appropriate and if such losses are incurred with the greater goal of purchasing new securities which are expected to produce higher earnings (net of realized losses) over time, or of improving the portfolio's overall credit quality or positioning.

Glossary of Investment Policy Terms

Amortization of Costs: Reconciliation of the purchase price of a security and par value resulting in net interest.

Bank Deposit: Deposits in banks or other depository institutions that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest

Bankers' Acceptance: A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

Benchmark: A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

Book Value: The value at which an asset is carried on a balance sheet.

Broker: A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account.

California Asset Management Program (CAMP): A pooled asset management program (joint powers authority) for California public agencies with professional investment services provided by PFM Asset Management LLC.

Cash Flow: A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

Certificate of Deposit (CD): A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period.

CD Placement Service: A service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution while still maintaining FDIC insurance coverage.

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

Collateralization of Deposit: Process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing the repayment of deposited funds.

Commercial Paper (CP): An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City. It includes 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.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Rating: Various alphabetical and numerical designations used by credit rating or nationally recognized statistical rating organizations (NRSROs), institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness.

Long-term Ratings

The three most commonly used NRSROs are Standard & Poor's, Fitch Ratings, and Moody's. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, and Ca.

The top four letter categories are considered investment grade ratings.

Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The S&P ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Short-term Ratings

Standard & Poor's short-term ratings system is A-1+, A-3, B, C, and / for default. Fitch Ratings use F1+, F3, B, C, and / for default. Finally, Moody's uses P1 and P3, anything below P3 is considered not prime.

Credit Risk: The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

Dealer: Someone who acts as a principal in all transactions, including underwriting, buying, and selling securities, including from his/her own account.

Default Risk: The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

Delivery vs. Payment: The payment of cash for securities as they are delivered and accepted for settlement.

Diversification: The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

Duration: Indicator of the effect of an interest rate change on a bond price. The longer the duration, the greater the expected change in a portfolio's value when interest rates change.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

Financial Industry Regulatory Authority (FINRA): FINRA is the successor to the National Association of Securities Dealers (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange. It is a non-governmental organization that regulates member brokerage firms and exchange markets. The government agency which acts as the ultimate regulator of the securities industry, including FINRA, is the Securities and Exchange Commission.

Government Sponsored Enterprises (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Examples of GSEs currently include: Federal Home Loan Bank System (FHLB), Federal Farm Credit Banks Funding Corporation (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA).

Interest: The amount a borrower pays to a lender for the use of his or her money.

Interest Rate Risk: Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

Liquidity: The measure of the ability to convert an instrument to cash on a given date at full face or par value.

Liquidity Risk: The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

Market Risk: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

Market Value: The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer/lender to liquidate the underlying securities in the event of default by the seller/borrower.

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

Medium Term Note: Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

Money Market Mutual Funds: A sub-type of mutual funds that invest exclusively in short-term money market instruments. Seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short- term investments.

Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

National Credit Union Administration (NCUA): an independent federal agency that insures deposits at federally insured credit unions, currently up to $250,000.

Nationally Recognized Statistical Rating Organization (NRSRO): A rating organization designated by the SEC as being nationally recognized.

Negotiable Certificates of Deposit: Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-Negotiable Certificates of Deposit: CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

Par Amount or Par Value: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Portfolio: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium: Premium means the difference between the par value of a security and the cost of the security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

Price: Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

Principal: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prudent Investor Standard: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Public Bank: A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

Qualified Public Depository: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price.

Repurchase Agreement: An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

Safekeeping: Offers storage and protection of assets provided by an institution serving as an agent.

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Supranational Institutions: International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments by California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

Total Return: Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

U.S. Agency Obligations: Bonds issued by agencies of the Federal government set up to supply credit to various classes of institutions. Examples include the Small Business Administration (SBA) and the Government National Mortgage Association (Ginnie Mae). The timely payment of principal and interest on federal agency bonds are explicitly backed by the "full credit and faith and credit of the U.S. government," whereas government-sponsored enterprise (GSE) obligations receive the de facto backing of the federal government. Nevertheless, both U.S. agency obligations and government-sponsored enterprise obligations trade similarly and are often generally referred to collectively as "federal agency" obligations.

U.S. Treasury Obligations: Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

Weighted Average Maturity: The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

Yield: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

RESOLUTION NO. 112-21

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OAKLEY APPROVING THE INVESTMENT POLICY FOR FISCAL YEAR 2021-22 AND AUTHORIZING THE INTERIM CITY MANAGER TO EXECUTE AN AGREEMENT WITH PFM ASSET MANAGEMENT LLC (PFMAM)

WHEREAS, the City Council has established and each year approves an Investment Policy regarding the investment of the City's temporary idle cash; and

WHERAS, the Policy delegates authority for investing the City's funds to the Finance Director; and

WHEREAS, the Policy specifies the City's investment objectives in accordance with California Law and provides a framework for managing and investing the City's funds in accordance with these objectives; and

WHEREAS, the Investment Policy itself requires the City's Investment Policy be reviewed and approved by the City Council each year; and

WHEREAS, the Finance Director has reviewed the existing policy and recommends the City Council approve the attached policy for FY 2021-22.

WHEREAS, the City of Oakley would like to utilize the services of a professional investment portfolio management firm to assist with investments other than LAIF and CalTRUST, to enhance the City's investment portfolio earning opportunities; and

WHEREAS, staff has worked with PFMAM in the past as has requested a proposal from PFMAM for investment portfolio management services; and

WHEREAS, PFMAM is a very reputable company with a solid track record of providing excellent investment portfolio management services and its fees are consistent with the industry standard; and

WHEREAS, the City of Oakley would like to enter into an agreement with PFMAM for investment portfolio management services.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Oakley hereby approves the Investment Policy for FY 2021-22 attached hereto as Exhibit A and authorizes the Interim City Manager to execute the agreement between the City of Oakley and PFMAM attached hereto as Exhibit B for professional services related to management of the City of Oakley's investment portfolio.

PASSED, APPROVED AND ADOPTED this 14th day of September, 2021 by the following vote:

AYES: Fuller, Higgins, Meadows, Pope, Williams
NOES:
ABSTENTIONS:
ABSENT:

APPROVED:

Sue Higgins

Sue Higgins, Mayor

9/21/21

Date

ATTEST:

Libby Vreonis, City Clerk

Letter Agreement

This Letter Agreement, entered into as of September 14, 2021 (the "Agreement"), sets forth our agreement for the investment of certain funds (the "Initial Funds") by the City of Oakley (the "Participant") in Individual Portfolios (as the term is herein defined) of the California Asset Management Program (the "Program").

The Program consists of the California Asset Management Trust (the "Trust") designed to provide Participants with a convenient method of pooling operating funds and proceeds of bonds, notes, and certificates of participation for temporary investment pending their disbursement. The Program also offers Participants the option of establishing individual, professionally-managed investment accounts ("Individual Portfolios") by separate agreement with the Trust's Investment Adviser to meet specific investment objectives. Collectively the Trust and the Individual Portfolios are referred to as the Program. All securities in the Trust are held by the Program's Custodian, U.S. Bank National Association, Minneapolis, Minnesota (the "Custodian"), in the name of the Trust, and all assets in each Individual Portfolio are held by the Custodian in the name of the appropriate Participant. Such custodial arrangements are subject to and governed by the terms and provisions of a Custody Agreement, dated as of January 10, 2013 (as the same may be amended from time to time, the "Custody Agreement"), which is incorporated herein by reference. A copy of the Custody Agreement is available at www.camponline.com. A complete description of the Program is provided in the Information Statement dated June 4, 2013, as amended from time to time, and the Declaration of Trust dated February 28, 2005, as amended from time to time, to which reference should be made for details.

Certain of the Initial Funds and such other funds as the Participant may from time to time assign to the Trust's Investment Adviser, PFM Asset Management LLC ("PFMAM") for management under this Agreement (collectively the "Managed Funds") will be invested by PFMAM in one or more Individual Portfolios while other funds will be invested in the Trust. The Participant hereby engages PFMAM to serve as investment advisor to the Participant under the terms of this Agreement with respect to the Participant's Managed Funds in its Individual Portfolios.

PFMAM will provide investment research and supervision and conduct a continuous program of investment, evaluation, and when appropriate, sale and reinvestment of the Participant's funds invested in Individual Portfolios. PFMAM shall place all orders for the purchase, sale, loan, or exchange of portfolio securities for the Participant's account with brokers or dealers, and to that end PFMAM is authorized as agent of the Participant to give instructions to the Custodian as to deliveries of securities and payments of cash for the account of the Participant. PFMAM shall ensure that orders are placed with reputable, qualified, and financially sound brokers/dealers. PFMAM shall, in a manner consistent with ensuring safety of principal, exercise due diligence in establishing and maintaining brokers/dealers qualifications and in conducting credit reviews and reviews on broker/dealer execution capabilities. In connection with the selection of such brokers and dealers and the placing of such orders, PFMAM is directed to seek for the Participant the most favorable execution and price, the determination of which may take into account, subject to any applicable laws, rules and regulations, whether statistical, research and other information or services have been or will be furnished to PFMAM by such brokers and dealers.

Compensation

For services provided by PFMAM for the management of funds in an Individual Portfolio, the Participant shall pay PFMAM an annual fee, in monthly installments, based on the average daily net assets of the funds in the Individual Portfolios, equal to 0.10% of the first $25 million of such assets and 0.08% of amounts in excess of $25 million. For purposes of calculating the fee payable to PFMAM, funds in all of the Participant's Individual Portfolios shall be aggregated. The minimum annual fee is $15,000. For custodial services provided by Custodian, the Participant shall pay the Custodian the applicable asset-based or transaction fees.

PFMAM shall prepare a bill for the investment management fee monthly and forward it and the monthly Custodian invoice to the Participant for approval. Unless instructed otherwise within 15 calendar days of the postmark on that invoice, PFMAM is herein authorized to charge the Participant's associated Trust account and instruct the Custodian to disburse funds from that account. If sufficient funds are not available, the Participant agrees to compensate PFMAM from other sources within 30 calendar days of the postmark date. If either PFMAM or the Custodian shall serve for less than the whole month, the compensation shall be pro-rated.

Although expenses associated with the management of an Individual Portfolio may be paid directly from the Participant's Trust account, where proceeds of tax-exempt debt are invested in an Individual Portfolio these expenses may not be deducted from investment income for purposes of calculating arbitrage rebate.

Other Expenses

Except as expressly provided otherwise herein or in the Declaration of Trust or Information Statement, the Participant shall pay all of its own expenses, if any, with regard to the investment of funds in an Individual Portfolio including, without limitation, taxes, commissions, brokerage and other expenses connected with the execution of portfolio security transactions, insurance premiums, and fees and expenses of the Custodian.

Registered Advisor; Duty of Care; Brochure and Brochure Supplement

PFMAM hereby represents it is a registered investment adviser under the Investment Advisers Act of 1940. PFMAM shall immediately notify the Participant if at any time during the term of the Agreement it is not so registered or if its registration is suspended. PFMAM agrees to perform its duties and responsibilities under the Agreement with reasonable care. The federal securities laws impose liabilities under certain circumstances on persons who act in good faith. Nothing herein shall in any way constitute a waiver or limitation of any rights which the Participant may have under any federal securities laws. The Participant hereby authorizes the Advisor to sign I.R.S. Form W-9 on behalf of the Participant and to deliver such form to broker-dealers or others from time to time as required in connection with securities transactions pursuant to this Agreement.

PFMAM warrants that is has delivered to the Participant PFMAM's current Securities and Exchange Commission Form ADV, Part 2A (brochure) and Part 2B (brochure supplement). The Participant acknowledges receipt of such brochure and brochure supplement prior to the execution of the letter agreement.

PFMAM's Other Clients

The Participant understands that PFMAM performs investment advisory services for various other clients which may include investment companies, commingled trust funds and/or individual portfolios. The Participant agrees that PFMAM, in the exercise of its professional judgment, may give advice or take action with respect to any of its other clients which may differ from advice given or the timing or nature of action taken with respect to the Managed Funds accounts, so long as it is the policy of PFMAM, to the extent practical, to allocate investment opportunities to this account over a period of time on a fair and equitable basis relative to other clients. PFMAM shall not have any obligation to purchase, sell or exchange any security for the Managed Funds solely by reason of the fact that PFMAM, its principals, affiliates, or employees may purchase, sell or exchange such security for the account of any other client or for itself or its own accounts.

Force Majeure

PFMAM shall have no liability for any losses arising out of the delays in performing or inability to perform the services which it renders under this Agreement which result from events beyond its control, including interruption of the business activities of PFMAM or other financial institutions due to acts of God, acts of governmental authority, acts of war, terrorism, civil insurrection, riots, labor difficulties, or any action or inaction of any carrier or utility, or mechanical or other malfunction.

Assignment

PFMAM's obligations and responsibilities as described in this Agreement are not assignable without the consent of the Participant.

Maintenance of Records

PFMAM shall provide the Participant with a monthly statement showing deposits, withdrawals, purchases and sales (or maturities) of investments, earnings received and the value of assets held on the last business day of the month for assets held in the Individual Portfolios. For proceeds of tax-exempt debt issues invested under this Agreement, PFMAM shall maintain appropriate records of all of its activities hereunder as may be required by the Internal Revenue Code of 1986, as amended, and related U.S. Treasury Regulations, and shall provide to the Program Rebate Calculation Agent all of those records of investment activity as may be necessary to prepare calculations of a Participant's rebate liability.

Term

This Agreement shall remain in effect so long as PFMAM is the Investment Advisor to the Trust, unless terminated by the Participant upon no less than thirty (30) days' prior written notice to PFMAM. This Agreement may be terminated by the Participant in the event of any material breach of its terms immediately upon notice by certified mail, return receipt requested.

Sincerely,

PFM ASSET MANAGEMENT LLC

By Sarah Meacham

Sarah Meacham
Managing Director

Accepted:

CITY OF OAKLEY

By ______________________
(Signature)

Joshua McMurray
(Name)

Interim City Manager
(Title)

Fixed Income Portfolio Management

Managing fixed-income assets for public-sector and other institutional investors is a core focus for PFM's investment advisory team and has been since our inception. For more than 40 years, our professionals have provided investment management services to clients with operating funds, bond proceeds, working capital funds, and long-term reserves.

Our Philosophy

Our asset management professionals understand that the funds we manage impact many interests and support a broad range of projects and services that are vital to communities. To help protect our clients and their funds, we emphasize careful management of credit risk, market risk, and return volatility. Like our clients, our investment objectives, in order of priority, are:

- **Safety:** Preserve invested capital with high-quality investments
- **Liquidity:** Match the portfolio's liquidity needs to anticipated cash-flow needs
- **Return:** Maintain a portfolio structure that provides a market rate of return on assets while seeking to limit volatility

A Customized Approach

We believe that our clients deserve better than a "one size fits all" investment solution. Portfolios that we manage are tailored to match each client's specific investment policy and cash flow needs. Meticulous monitoring of market sectors allows us to quickly identify new investment opportunities and modify investment strategies as conditions change over time.

Our disciplined approach adheres to three key principles:

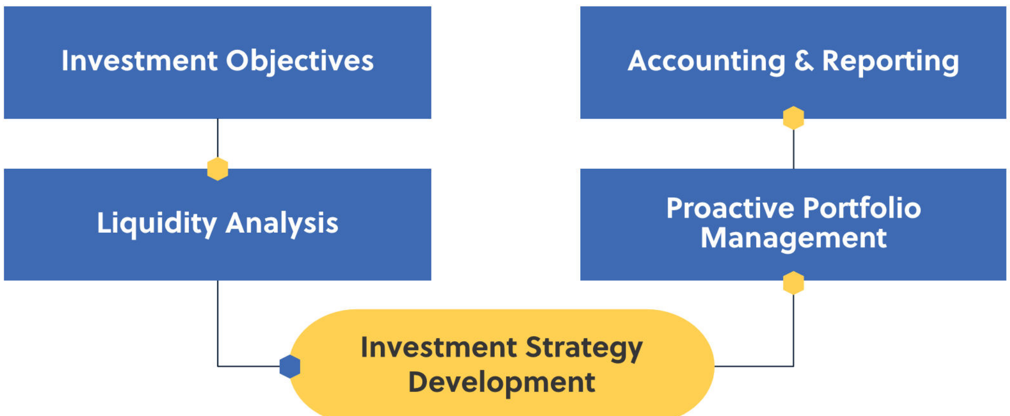
- Deeply understand client needs in order to develop a successful investment program that stands the test of time;
- Construct portfolios that are diversified and have lower volatility than comparable market benchmarks; and
- Actively manage portfolios by capturing market inefficiencies and avoiding risk

Independent Research

We offer clients objective market views driven by our own internal research and fixed-income expertise. Using proprietary models and industry-leading technology, our sector specialists and strategists are able to formulate strategies that keep pace with the changing market environment. Clients benefit from our investment professionals' best ideas for asset allocation and security selection, which are developed collaboratively by our experienced portfolio managers, strategists, and traders.

Our Process

Our investment process is client-driven and systematic as illustrated below. PFM's local asset management relationship managers collaborate with both clients and our fixed-income portfolio management team to formulate customized strategies. On an ongoing basis, we provide clients with a high level of service and transparent communication, including proactive market advice, detailed performance reporting, and client education. Clients have full access to our portfolio management, client service, analytical, and accounting staff as a general resource for all investment-related matters.



Why PFM Asset Management LLC?

PFM is a leading provider of investment advisory services, with $145 billion in total fixed-income assets under management and advisement, including $107.2 billion in discretionary assets under management and $37.9 billion in non-discretionary assets under advisement (as of June 30, 2021).

We have a sizeable presence in the marketplace and manage the portfolios of many large public-sector and institutional entities across the country, which provides clients with best practices from a national perspective. At the same time, local professionals at regional offices nationwide provide personalized service. National investment management expertise combined with client-focused relationships allow us to deliver customized portfolio solutions that meet client needs.

44 Montgomery Street
San Francisco, CA 94104

415.982.5544
pfm.com