File ID: 2026-00851 6/9/2026

City of Sacramento Investment Policy and Delegation of Investment Authority to City Treasurer

File ID: 2026-00851

Location: Citywide

Recommendation: Adopt a **Resolution**: 1) approving the investment policy governing the investments and management of City of Sacramento pooled funds; and 2) delegating authority to the City Treasurer or designee to manage the investment of pooled and non-pooled funds.

Contact: Stacy Hussey, Chief Investment Officer, (916) 808-7746, shussey@cityofsacramento.org; John Colville, City Treasurer, (916) 808-8297, jcolville@cityofsacramento.org; Office of the City Treasurer

Presenter: None

Attachments:
1-Description/Analysis
2-Background
3-Resolution
4-Exhibit A - City of Sacramento Investment Policy (Redline)
5-Exhibit A - City of Sacramento Investment Policy (Clean)

Description/Analysis
Issue Detail: The City Treasurer annually presents to the City Council for its consideration and approval the investment policies governing the investment of funds held in the City's pooled treasury funds. The policies govern the City's investment practices and are set forth in an Investment Policy document. The Investment Policy was last approved by the Council on August 12, 2025, by Resolution No.2025-0216. The proposed Investment Policy is attached as Exhibit A to the accompanying Resolution, with both redline and clean versions. The Redline version includes additional language regarding socially responsible investments to be incorporated.

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. In accordance with

Government Code section 53607, the City Treasurer recommends that the City Council delegate to the City Treasurer the authority and responsibility of investing funds held in the City's pooled treasury and non-pooled funds for the next twelve months in a manner consistent with the approved Investment Policy.

Policy Considerations: Sound investment practices are facilitated by the preparation of written governing policy statements. The proposed Investment Policy includes the primary objective of preserving the safety of principal which is followed by the objectives of meeting the liquidity needs of the City and obtaining a fair rate of return on investments. The proposed Investment Policy adopts the full range of authorized investments set forth in Government Code section 53601 and related provisions. The delegation of investment authority from the City Council to City Treasurer allows the City Treasurer's Office to continue the prudent and efficient investment City funds and is consistent with the intent of the City Charter regarding the duties of the City Treasurer.

Economic Impacts: None.

Environmental Considerations: This action is not subject to the California Environmental Quality Act (CEQA) because it is not a "project" as defined in section 15378 of the CEQA Guidelines.

Sustainability: None.

Commission/Committee Action: None.

Rationale for Recommendation: The prudent management of the City's treasury pools is enhanced by the adoption of an Investment Policy setting forth the parameters under which such funds are invested. The delegation of investment authority from the City Council to City Treasurer allows the City Treasurer's Office to continue the prudent and efficient management and investment of City funds.

Financial Considerations: The Investment Policy sets forth the three primary objectives of the City's investment of the pool A funds. In order of priority, the objectives are preservation of principal, meeting the liquidity needs of the City, and achieving a rate of return on investments commensurate with satisfaction of the other two objectives. Such prudent management of funds is critical in allowing the City to cover the expenditures in the operation of the City and its myriad of activities as set forth in the City's approved budget and various Council actions. The delegation of investment authority from the City Council to City Treasurer allows the City Treasurer's Office to continue to support the City's cash flow needs in an effective and efficient manner

Local Business Enterprise (LBE): Not applicable.

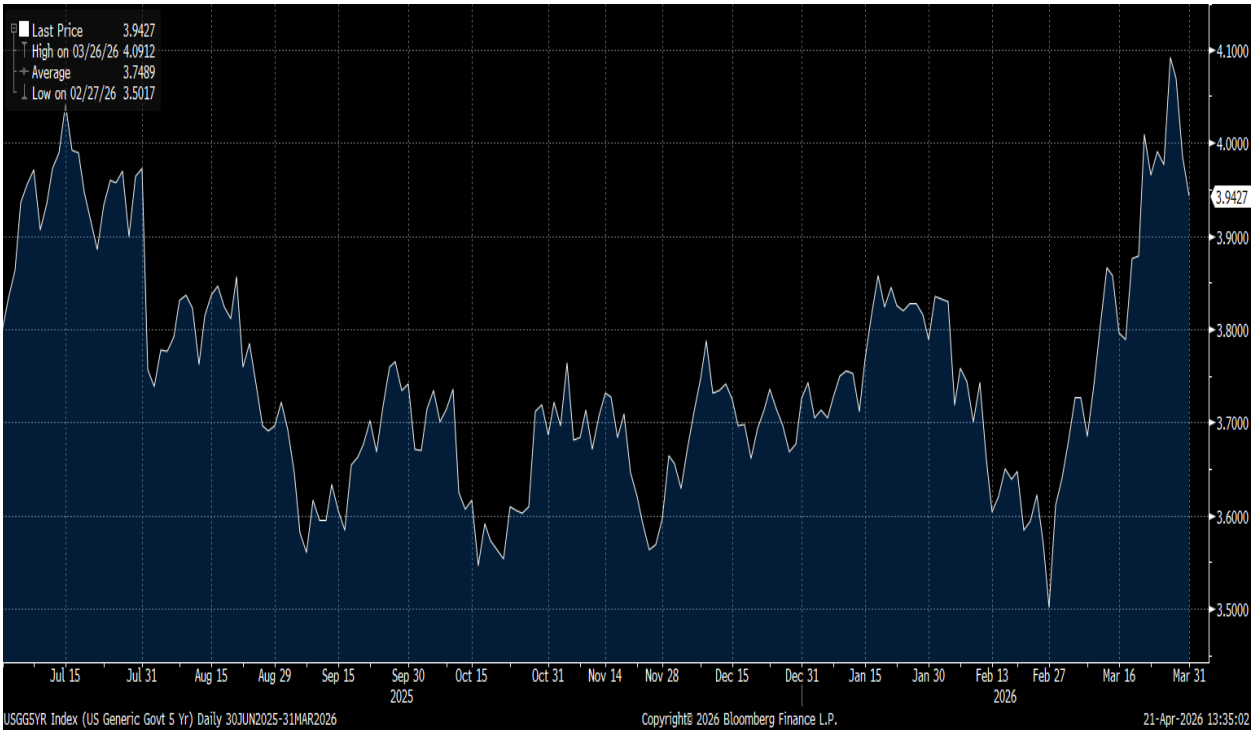
BACKGROUND

Interest Rate Environment and Investment Implications

The Federal Reserve Board of Governors cut the Federal Funds rate three times over the final third of 2025 for a total of 75 basis points (0.75%). The target rate has held steady at 3.75% for the entire first quarter of 2026 on data that shows a balanced economy that is moving in the right direction. Short-term yields moved in concert with the policy decisions of The Fed. The yield on the 90-day Treasuries began the fiscal year above 4.25%, then dropped each time rates were cut. As the calendar changed to 2026, the yield steadied near 3.65%. Yields further out on the yield curve were more volatile as they are much more sensitive to both domestic and global conditions. The 5-year Treasury yield has pushed above 4.0% multiple times during the fiscal year, while dropping as low as 3.50% in response to positive economic data. Uncertainty in the Middle East helped push its yield to 3.95% at the end of March 2026. President Trump continues to lobby The Fed to aggressively to cut rates. Chairman Powell terms out in May and Trump has nominated Kevin Warsh, who previously served on the Fed's Board of Governors, and he is currently awaiting Senate Confirmation hearings. Should he be confirmed by the Senate, he is expected to push for more aggressive easing, which has long been desired by President Trump.

Aside from a blip in September of 2025 when it touched 3.0%, U.S. inflation has gently bounced between 2.4% and 2.7% over the fiscal year. The number jumped back to 3.0% in March of 2026 in reaction to the United States removing Iranian leadership through military force. Those actions and the continued bombing of the country have led to increased energy prices, pushing up the price of goods across many sectors and industries. The labor market, which represents the other half of The Fed's dual mandate (along with maintaining steady prices) has shown strength for most of the fiscal year. Even with revisions that erased reported job gains from the final quarter of 2025, the labor market has shown growth and resilience over the fiscal year. A relatively strong labor market and prices that are steady (albeit elevated over the preferred inflation rate of 2.0%) should lead The Fed to hold steady with their policy. Therefore, no action on their part is expected for most of 2026. That is all subject to change, however, if domestic or global events dictate that action be taken.

U.S. 5-Year Treasury Yield June 30, 2025 – March 31, 2026



While prices held fairly steady, economic growth was impacted by government shutdowns related to both immigration enforcement and the war in Iran. Third quarter 2025 GDP was an impressive 4.4%, due mostly to robust consumer spending and a rise in exports, accompanied by a decrease in imported goods. Growth slipped to 0.5% during the fourth quarter as government spending cratered on account of a government shutdown precipitated by congressional disagreements on how funds for immigration enforcement would be allocated. Tariffs also impacted fourth quarter growth, as inventories dropped due to the costs of importing more expensive items. Overall, the U.S. GDP rose 2.1% in 2025, which is a dip from the 2.8% growth realized in 2024.

Consumers remained dissatisfied, evidenced by the University of Michigan Consumer Sentiment Index hovering around levels not seen since the economic lockdowns of 2020. Americans are resilient spenders (personal consumption remains at historically high levels), but a majority continue to have a negative view of current economic conditions. A declining number of Americans see improvements in the near future. This pessimism surely has been exacerbated by rising fuel prices resulting from the conflict in Iran. Gas prices in America shot up as soon as military action began. As of this writing, prices remain elevated as the U.S. is executing a blockade of all Iranian ports. Higher prices for energy work downstream to negatively impact the prices of most goods and services. Should the cost of living stay elevated for an extended period, Americans may make their feelings known at the ballot box during the midterm elections in November, potentially voting for a change in the makeup of Congressional leadership. Currently, Republicans have a slim majority in both the House of Representatives and the Senate.

Republicans gained control of Congress in 2024 but have not been able to implement

most of the policies they promised when they took control. Although a bill carrying a significant tax cut passed and was signed into law in 2024, other major reforms have not come to fruition. President Trump has announced major partnerships with both domestic and foreign corporations that could lead to increased investment within the U.S. borders over the next decade. These investments are intended to boost domestic production which, in theory, will lead to new jobs and lower prices for manufactured goods. The economy could get a significant boost should these deals work, but they are all still in the very early stages with no ground being broken yet. Republicans continue to push for investigation and termination of alleged fraudulent use of government funds across the nation. They have centered their focus on the states of Minnesota and California and vow to root out all of the ways taxpayer money has been used improperly. These efforts are an extension of the Department of Government Efficiency which was created to streamline government operations. The effectiveness of these efforts remains to be seen; however, the economy should greatly benefit if tax dollars are spent more efficiently.

While tensions between Israel and Hamas have cooled significantly, global tension remains at a high level. As noted above, the United States and Israel carried out actions that eliminated the majority of Iran's political and spiritual leadership. Backed by the support of nearly every nation in the Middle East, a blockade of Iranian ports is currently in effect. The hope is that the Iranians will come to the negotiating table and agree to give up all their efforts to develop nuclear weapons, including all of the weapons grade uranium they have enriched. Global energy markets are in flux as this goes on, since Iranian oil is key to the operations of numerous nations across the Eastern Hemisphere, most notably India and China. Choking off the Iranians ability to sell their oil will not only destroy their economy, but it will also make it difficult for India and China to operate at their typical capacities. Meanwhile, tensions still rage on between Ukraine and Russia. Early in his term, President Trump vowed to end the conflict and attempted to initiate negotiations between the adversaries. Little to no progress has been made in a war that appears to be far from concluding.

In the Western Hemisphere, Venezuelan leader Nicolas Maduro was taken into custody by the United States for crimes against humanity. The oil rich nation is now being run by American backed leadership that is helping with the distribution of the nation's vast oil supplies. Cuba has been greatly impacted by this, as they have been almost entirely dependent on Venezuelan oil for decades. The Cuban government is reportedly on the verge of collapse. Since Cuba is merely 90 miles off the coast of Florida and millions of people with Cuban heritage live in the United States, the fate of the nation is of great interest to many Americans.

Investment staff continues to monitor how domestic and global policies affect investment markets. As long-term interest rates fluctuate, staff is focused on strategically adding issues that help meet its investment goals: High quality names that will be dependable over the long-term; Preservation of liquidity in order to meet the cash needs of the City, along with other pool participants; and, adding yield to the portfolio when it is available and prudent. Additionally, staff continues to focus on seeking out the strongest names in the most stable industries within the allowable investment horizon (0-5 years). Staff will take advantage of opportunities to gain yield when they

arise, but the focus will always be on first providing security for the assets of the City and pool participants, while meeting all of the City's cash needs.

The City's Pool A

City Treasurer's investment staff has structured its investments by purchasing high quality fixed income instruments (1) to meet the near-term cash needs of the City with a portion of the pool, and (2) positioning the remainder to generate interest income on the balance of the pool based on prevailing rates and by anticipating a gradual increase in rates through the investment in variable rate instruments.

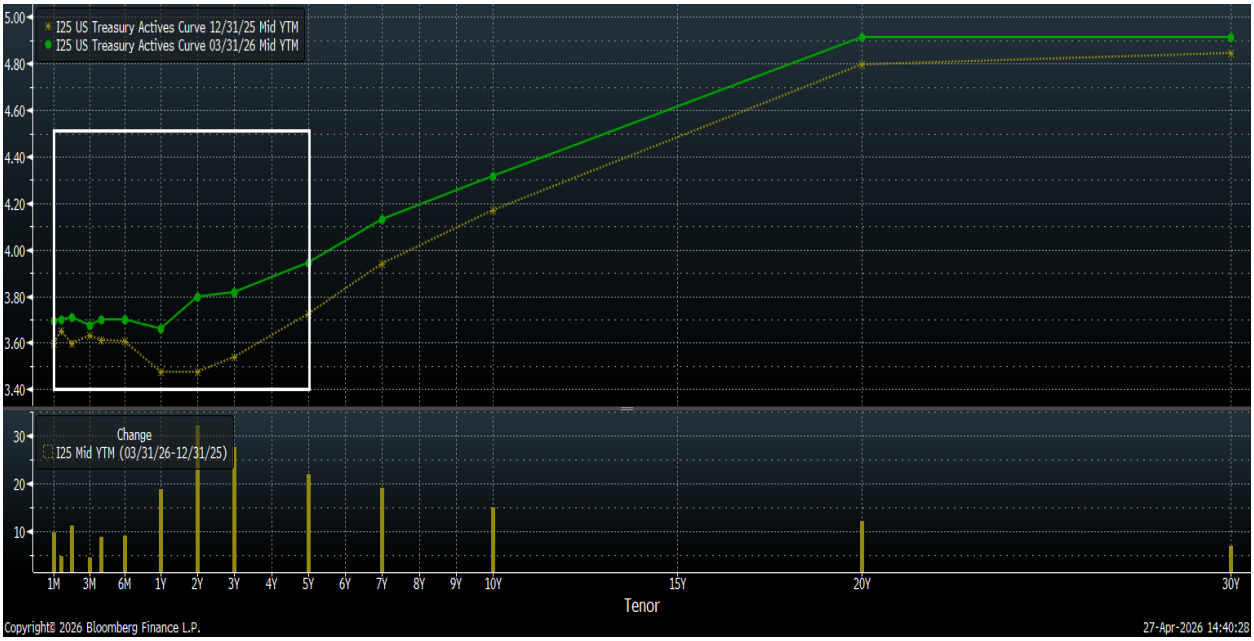
Accordingly, Pool A investments can be grouped into two categories: Liquidity Investments that mature inside of one year and are generally intended to provide a supply of cash to meet the near-term cash flow needs of the City and other pool participants; and Core Investments that are purchased with the intent to gain yield, while not sacrificing safety and liquidity. As of March 31, 2026, Liquidity Investments comprise 39% of Pool A and 61% are Core Investments.

Short-term Liquidity Investments currently yield 3.82%, while the Core portion is yielding 3.70% (as of 3/31/26). When accounting for assets that were purchased at a discount, the overall yield for Pool A as of March 31, 2026 is 3.89%. The yield on liquidity investments has been fairly steady over the past year, even as The Fed has cut short-term interest rates. Core investment yields increased significantly over the prior year as numerous bonds with coupons near or under 1.0% matured. These bonds were replaced at higher rates, most in excess of 3.5%. Investment staff has taken advantage of high yields at the short end of the curve when purchasing assets to match the City's cash liabilities. This strategy targets known expenditures of the City (payroll, debt service, pension service

During the current fiscal year, a significant number of the City's cash obligations have been covered by the maturities of assets that were purchased primarily with stimulus funds the City received in 2020 and 2021. At the time the funds were received, interest rates across the Yield Curve were near zero and there was a feeling that short-term yields could go negative. To provide safety to the pool, staff invested a large portion of these funds in treasuries and agencies backed by the full faith and credit of the United States Government. Many of these investments had maturities of the full five years allowed by state code. Between 2020 and the middle of 2023, when markets were still feeling the effects of the Covid shutdowns, the yields allowed the pool to maintain its level of safety while also outperforming its peers. As the Fed increased interest rates in relation to elevated levels of inflation, the yields on these assets began to drag down the overall yield of the pool, which led to some underperformance in relation to our peers. These low coupon assets began maturing in May of 2025 and have mostly rolled out of the pool. The funds that have not been set aside to cover City expenses have been and will be invested in assets that carry coupons in excess of 3.5%. With a steeper Yield Curve compared to the past few years, most of these investments will target a four-to-five-year horizon to lock in those healthy yields for the maximum amount of time. With these low coupon assets now maturing out of the pool, the comparative yield of Pool A

has nearly doubled; while our peers and LAIF have mostly tracked downward during the fiscal year.

The chart below compares the yield curve on June 30, 2025, to what it was on March 31, 2026 (the rectangle denotes the investment horizon for Pool A). Yields at the front end of the curve have come in significantly on the action of The Fed. Further out on the curve, yields have increased as markets have stabilized over the time period. This has led to a steepening of the Yield Curve, moving back toward a normal, upward sloping shape where longer term investments carry higher yields than those for shorter term investments. Nothing is certain in either fixed income or equity markets right now, particularly with so much global uncertainty. Should inflation remain persistent or energy prices stay elevated for a long period of time, The Fed may be moved to increase the Federal Funds Rate. This would lead to yields at the short end of the Yield Curve to increase and could lead to an inverted curve. Regardless of which direction interest rates move, investment staff have positioned the pool to adequately cover all of the City's short-term cash needs while allowing for excess cash that can be used to boost the overall yield of the portfolio.



For FY 2025, Pool A yielded 2.92% across both Liquidity and Core Investments. This lagged the yield of the many California municipalities of similar size for the fiscal year. However, as noted previously, the pool is on a definite upward trajectory, while the pools of our peers were trending downward as The Fed cut interest rates. The portfolio began the current fiscal year by yielding 3.07% (July 2025), From there, Pool A's monthly yield steadily increased as lower yielding bonds matured and were replaced by yields in excess of 3.5%. Pool A closed the calendar year 2025 with a yield of 3.25% and started 2026 by jumping to 3.89% March 2026. Should The Fed continue holding rates steady, yields for Pool A are expected to remain near these levels and potentially approach 4.00% over the next few months as incoming revenue (mostly in the form of property taxes) is invested in yields approaching, or even exceeding, that level.
While much of this portfolio stability and success is attributable to the City's commitment

to maintain a staff of full-time investment officers, the adoption of investment policies making the full panoply of investment vehicles allowed under the Government Code available to investment staff also plays a critical role in driving returns. The structure of the pool's investments is stable, yet flexible as the economy navigates through very difficult and uncertain times.

Primary Investment Policy Provisions

Two of the key portions of the Investment Policy concern (1) the overriding priorities in the management of the City's pooled funds and (2) the eligible investments purchased with such funds. The Investment Policy adopts provisions of California Government Code statutes that address each portion (Government Code sections 53600.5 and 53601 (and related provisions), respectively.) The concepts are integral to each other, with each playing a role in every investment and cash management decision made in managing the pool.

The fundamental and overriding objectives of both the City's Investment Policy and state law are, in order of priority:

1. Protection of principal – City funds are placed in secure investments such as government bonds, solid short-term instruments, highly-rated corporate bonds, obligations of the State of California and other quality municipal bonds.

2. Liquidity – The management of Pool A, including the maturity of individual investments, are selected so that sufficient cash is always available to cover the City's expenditure obligations without being forced to liquidate existing holdings to pay its bills.

3. Yield – The investment of Pool A shall generate some yield, or investment income. Importantly, the generation of yield is the third-level goal below safety and cash availability. In general, bond yields are lower for high credit quality bonds and for short maturity investments. As such, the yield generated is commensurate with policies relating to preservation of principal and the need to have cash available when needed.

While the Investment Policy adopts the types of investment vehicles authorized by state law, the purchase of any given security can only be made if it satisfies the objectives of safety, availability of funds, and yield. Each decision made in this regard must also satisfy the general prudent person standard (Government Code section 53600.3). Investment staff also engages in bond trading and swaps where it is advantageous to do so, e.g., realization of capital gains and/or enhancement of yield.

In practice, investments can only be purchased after it is first determined whether there is any cash available to be invested. This cash flow-based determination is made daily, looking not only at the day's cash needs to cover expenses due on that day, but also future dates on which the City's obligations come due, e.g., anticipated presentation of large checks issued by the City, payroll dates every two weeks and debt service

payment dates. The cash management by the Treasurer's investment staff pays homage to the liquidity objective of the Investment Policy.

Once it is determined that the City's immediate and near-term cash needs are met, then specific securities that are authorized by the Investment Policy are reviewed for opportunities to provide a return to the pools while maintaining the safety of principal.

The Investment Policy provides the City, acting through the City Treasurer, with the flexibility to make cash management and investment decisions in a prudent, effective, and efficient manner day in and day out.

Continuation of Prior Approved Policy

The Investment Policy was last approved by the Council on August 12, 2025, by Resolution No 2025-0216. The proposed Investment Policy is attached as Exhibit A to the accompanying Resolution. There is an update to the investment policy this year which is the inclusion of a new section titled Socially Responsible Investing. This language is called out in redline in the first Exhibit A attachment. The City Treasurer worked closely with council members and their offices to create the language that is formally being added to the annual investment policy.

Delegation of Investment Authority

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. In accordance with Government Code section 53607, the City Treasurer recommends that the City Council delegate to the City Treasurer the authority and responsibility of investing funds held in the City's pooled treasury funds for the next twelve months. Such action will allow the City Treasurer and his staff to continue the prudent investment of the City's pooled treasury funds and the effective and efficient support of the City's efforts to meet its cash flow needs.

Delegation of Investment Authority for Non-Pooled Funds

In addition to pooled funds, the City Treasurer also invests monies in non-pooled funds. These non-pooled funds are not part of the City's general fund and are separate City funds, which are invested by the City Treasurer's Office on behalf of The City, solely for the benefit of each funds' beneficiaries. While it is clear that the City Treasurer has the authority to invest non-pooled funds, questions remained regarding the City Treasurer's authority to manage the non-pooled funds. Thus, in January of 2024 staff clarified the annual delegation of authority to manage pooled funds to include non-pooled funds as well. This delegation of authority includes the ability to vote proxies, conduct investigations related to any investment, and manage the day-to-day operations of these funds on behalf of the City.

Attachment 1

RESOLUTION NO. 2026-XXXX

Adopted by the Sacramento City Council
June 9, 2026

RESOLUTION APPROVING THE INVESTMENT POLICY GOVERNING THE INVESTMENT OF CITY'S POOLED TREASURY FUNDS AND DELEGATING INVESTMENT AUTHORITY TO THE CITY TREASURER FOR POOLED AND NON-POOLED FUNDS

BACKGROUND

A. Sound investment practices are facilitated by the preparation of written governing policy statements. Such policies should cover all substantive aspects of the investment of funds. The City Treasurer has prepared a comprehensive Investment Policy document pursuant to which the City, acting through his office, will manage and conduct investment of the City's pooled treasury funds. The Investment Policy is attached hereto as Exhibit A.

B. In furtherance of the prudent management of the City's treasury pools, the Investment Policy is in compliance with State law provisions establishing investment objectives and setting forth permissible investment of public funds not required for immediate expenditure.

C. Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to state law.

D. The delegation of investment authority and responsibility from the City Council to the City Treasurer will allow the City Treasurer and his staff to continue the prudent investment of the City's pooled treasury funds and the effective and efficient support of the City's efforts to meet its cash flow needs.

E. The City Treasurer's Office also manages other funds on behalf of the City that are not part of the Pool A fund (Non-pooled funds). Non-pooled funds are funds which are not part of the City's general fund and are separate City funds delegated to be managed by the City Treasurer's Office on behalf of The City; solely for the benefit of each funds' beneficiaries. These funds currently include the Ethel Hart Mutual Endowment Foundation, the George Clark Memorial Scholarship Fund, the Ann Land/Bertha Henschel Endowment Foundation and the SHRA Pool D Investment fund. Non-pooled funds each have their own separate investment guidelines and are not subject to government code 53601 or the attached Investment Policy. As part of the delegation provided by this resolution, the City Treasurer's Office shall have full authority over these funds,

including the ability to vote proxies, conduct investigations related to any investment, and manage the day to day operations of these funds on behalf of The City.

F. The City Treasurer's Office also separately manages the Sacramento City Employees Retirement System (SCERS) funds, which are not considered non-pooled funds for purposes of this resolution. The SCERS funds have their own annual investment policy that is reviewed annually by City Council.

G. The delegation of investment authority and responsibility from the City Council to the City Treasurer will allow the City Treasurer and his staff to continue the investment of the City's pooled and non-pooled funds in support of the investment objectives and directives of each fund.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The Investment Policy submitted by the City Treasurer, attached hereto as Exhibit A, is hereby approved.

Section 2. The City Council, pursuant to Government Code section 53607, delegates to the City Treasurer for a period of twelve (12) months the authority to manage and invest the City's pooled treasury funds in accordance with the Investment Policy.

Section 3. The City Council also delegates to the City Treasurer for a period of twelve (12) months the authority to manage and invest the City's non-pooled funds in accordance with each respective funds' investment guidelines with the same degree of authority that is provided by Government Code section 53607 for pooled funds.

Section 3. Exhibit A is part of this resolution.

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Exhibit A - City of Sacramento Investment Policy

Exhibit A

CITY OF SACRAMENTO
INVESTMENT POLICY

The purpose of this document is to set forth the investment and operational policies for the management of the public funds of the City of Sacramento. These policies are designed to ensure the prudent management of public funds under management by the Sacramento City Treasurer.

Although the Sacramento City Charter generally provides the City Treasurer with the authority to deposit and invest funds in the City Treasury, undertaking of the investment activities by the City Treasurer is subject to the annual delegation of investment authority from the City Council as the body being primarily responsible for the investment of City funds. Accordingly, these policies are applicable to the management of City treasury funds as that task may be delegated to the City Treasurer.

A copy of this policy statement will be provided to all investment brokers and dealers and others in related fields doing business with the City of Sacramento, and will be provided to other interested parties on request. In addition, this policy statement will be posted to the City Treasurer's page of the City's internet website.

An entity retained to provide investment-related services to the City of Sacramento shall not render services unless and until it confirms, in writing, that it has received and reviewed this policy statement, and is prepared to implement its terms, as applicable to the services to be provided by the entity.

I. Governing Authority; Scope

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. These policies shall apply to the City Treasurer's investment of City treasury funds.

The City Treasurer investment program for Pool A treasury funds shall be operated in conformance with applicable federal, state, and other legal requirements. This policy statement is intended to conform to Government Code sections 53600, et seq, and interpretation of these policies shall be consistent with those statutes.

II. Objectives

A. Primary Objectives

The primary objectives of investment activities, in order of priority, are safety, liquidity, and yield:

1. *Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk.

(a) Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. The City will minimize credit risk by:

(i) Limiting investments to the types of securities listed in Section VI of this Investment Policy

(ii) Re-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section IV.

(iii) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

(b) Interest Rate Risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The City will minimize interest rate risk by:

(i) Structuring the investment portfolio 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

(ii) Investing operating funds primarily in shorter-term securities, money market mutual funds, the Local Agency Investment Fund ("LAIF") managed by the State of California, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or LAIF which offer same day liquidity for short-term funds.

The staff of the City Treasurer's Office shall (i) monitor the City's budget formation and approval process and (ii) actively engage with City staff to assess and manage cash flow needs of the City.

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the low level of risk being assumed.

Securities shall generally be held until maturity with the following exceptions:

(a) A security with declining value may be sold early to minimize loss of principal.

(b) A security swap would improve the quality, yield, or target duration in the portfolio.

(c) Liquidity needs of the portfolio require that the security be sold.

(d) Where the sale of the security to realize capital gains is advisable in the judgment of the investment officers.

B. Other Objectives

1. *Pooling of Funds*

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds proportionately based on their respective participation and in accordance with generally accepted accounting principles. The pooling of funds shall have no effect on the legal character of the pooled funds, i.e. funds whose use is restricted by law shall remain restricted and cannot be used as part of the City's general fund.

2. *Local Considerations/Community Investments*

Where possible, as a secondary objective, funds may be invested for the betterment of the local economy. The City Treasurer may accept a proposal from an "eligible local community institution" that provides for a reduced rate of interest provided that such institution documents the use of deposited funds for local community development projects. To qualify as an "eligible local community institution", the following criteria must be met:

- An eligible local community institution is defined as being headquartered in counties in and around Sacramento, including but not limited to Placer, El Dorado, Sutter, and Yolo.

- An eligible local community institution shall have over 50% ownership tied to the local community. Both private and publicly traded companies must submit an ownership breakdown of the institution if requested by The City Treasurer to satisfy the 50% local ownership requirement.

- To be recognized as an eligible local community institution the entity must have had a 5 star "Superior" Rating from either Bauer Financial or IDC Financial Publishing for the past 4 consecutive quarters. Eligible institutions must submit their quarterly ratings to the City Treasurer's office and maintain their 5-star rating continuously. If an eligible local community institution drops below the required 5-star rating, they will have 1 quarter to cure the deficiency. If in the following quarter the institution does not re-achieve a 5-star rating with the same independent rating company, the City may withdraw funds allocated to that institution.

- Institutions who receive deposits from the City as part of a local community investment not eligible for FDIC insurance must be secured by collateral of 110% as described in California Government Code Section 53651 and 53652.

- Institutions who receive deposits from the City as part of a local community investment must commit to invest 50% of the deposits in the local community, within the City of Sacramento City limits

- Institutions must provide a detailed semi-annual report to the City Treasurer's Office that shows evidence that the institution is meeting the 50% local community investment mandate on the City's deposits. When available, semi-annual reports should include demographic information from borrowers if available. If an institution cannot provide evidence that it has met the 50% local community investment criteria, the City may withdraw its deposits from the institution.

- As a matter of prudence, the amount the City Treasurer may invest in eligible local community institutions will be limited to 1% of the institution's total assets, as determined by the quarterly independent financial reports. If, during the course of an investment with an eligible local institution, the City exceeds the maximum 1% deposit level, the City may withdraw any funds in excess of the limit to cure the deficiency.

- The city may place deposits with eligible local community institutions up to a total of 7.5% of the total in the City's portfolio. If this amount is exceeded the City may withdraw funds from any institution to reduce the total community investment back below the maximum.

Although an eligible local community institution may meet all of the above stated criteria, it is not a guarantee that the City will maintain deposits. The City Treasurer retains the right to make deposit and withdrawal decisions based on the Primary Objectives of the Investment Policy stated above.

3. *Favored Investments*

Investments are encouraged in entities that have demonstrated significant commitment and cooperation (a) with foreclosure prevention efforts, including, without limitation, temporary moratoriums on foreclosures, renegotiation of the principle mortgage balances to reflect current values, and other good faith negotiations with homeowners in regard to delinquent mortgages, and/or (b) in offering free or low-cost banking services to low- and moderate-income residents who are part of the traditionally "unbanked" or "under-banked" population. The City Treasurer may take into consideration the level of effort an entity expends in either the foreclosure relief or community banking areas, or both, when considering competing investments. If the City Treasurer is satisfied with the record of an entity in regard to such efforts, then the Treasurer's investment staff may invest in the securities of the entity, provided that the investment is otherwise consistent with the requirements of this Investment Policy statement.

4. *Socially Responsible Investments*

Socially Responsible investments standards are integral to an impact-driven and financially prudent investment policy that aligns City investments with broader societal objectives. Adopting these standards will better align with the guiding principles of the City's 2040 General plan. The investment of City funds shall follow a set of socially responsible principles and standards based on the screening criteria outlined below. The City Treasurer will use these criteria to inform investment decisions to the extent that they do not compromise the primary investment objectives which are, in order of priority, safety, liquidity and yield; nor the City's "prudent person" standards:

a. No investments shall be made in companies involved in the manufacturing of tobacco or tobacco-related products.

b. No investments shall be made in individual publicly traded fossil fuel companies

c. No investments shall be made in companies found to have committed or enabled severe violations of human rights and international humanitarian laws; including but not limited to child labor, forced labor, and forced community resettlement; whether domestically or internationally.

d. No investments shall be made in companies whose primary operations are the production of chemical or biological war weapons or bombs nor the production of automatic or semi-automatic rifles, ghost guns, machine guns, and crew-served weapons, marketed for civilian sale and use.

e. No investments shall be made in companies whose primary business activities are involved in mass incarceration and detention, including but not limited to investments in companies that build, own, operate or service private prisons; nor in companies that use prison labor.

f. No investments shall be made in companies whose primary objective is the facilitation of or involved in immigration detention, nor in companies providing surveillance technology.

g. Investments shall, when feasible, prioritize local financial institutions, companies, and organizations that actively engage in objectives that directly support the well-being of all Sacramento city residents. Examples include securities that support community development, green municipal bonds that finance sustainable energy, transportation, and infrastructure as consistent with Local Considerations/Community Investments detailed in Section 2.

III. Standards of Care

A. *Prudence*

In accordance with Government Code section 53600.3, the standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures developed by the City Treasurer and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided extraordinary deviations from expectations are reported by subordinate investment officers to the City Treasurer in a prompt fashion and that the sale of securities is carried out in accordance with the terms of this policy.

Pursuant to the "prudent person" standard, investment officers 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. Funds shall be managed not for speculation where the sole goal of a transaction is to increase principal balances, but for investment intended to earn a reasonable rate of return on invested funds, considering the probable safety of their

capital as well as the probable income to be derived. Despite that investment transactions are undertaken with care pursuant to the "prudent person" standard, it is recognized that invested funds are subject to the vagrancies of the markets beyond the control of the investment officers.

B. *Ethics and Conflicts of Interest*

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

Investment officers shall file State Fair Political Practices Commission's Statement of Economic Interests and make the disclosures required by the City's conflict of interest policies.

C. *Delegation of Authority*

Authority to manage the City treasury investment program is granted to the City Treasurer pursuant to Sacramento City Charter section number 73, unless the Charter specifically indicates otherwise, subject to annual delegation of investment authority by the City Council pursuant to Government Code section 53607. Pursuant to the City Charter, the City Treasurer also is authorized to appoint deputies and employees, as prescribed by Council resolution, to implement the investment program. The City Treasurer and those employees appointed by the Treasurer to perform investment activities pursuant to these policies shall be referred to herein collectively as "investment officers."

Investment officers shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy ("Investment Procedures Manual"). Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures manual. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate their activities.

IV. Authorized Financial Institutions, Depositories, and Broker/Dealers

A. Selection

Financial institutions and depositories involved in implementing the City Treasurer's investment activities are selected on a competitive basis in order to obtain high quality services by reliable, reputable and stable entities. The competitive process may be formal or informal, as determined by the City Treasurer in his or her discretion, with the objective of obtaining the quality of services necessary to serve the best interests of the City and relevant stakeholders, with services performed at competitive fees and rates. Such processes may occur from time to time by the City Treasurer's Office whether at the time the City Treasurer contracts for the general banking services or otherwise. The firm or firms providing investment-related services may or may not be, at the discretion of the City Treasurer, the same firm providing general banking services. Among the factors that the City Treasurer may consider in obtaining such services are (i) minimum qualifications pertaining to capacity, satisfaction of requirements to conduct required business, i.e. licenses, permits, registrations, certifications, etc.; (ii) capitalization; (iii) insurance and bonding; (iv) safekeeping and custodial experience; (v) status in good standing; (vi) ability and capacity of the firm to provide a full range of services as may be required by the City Treasurer; (vii) extent of the value added by an entity over the services provided by firms then-providing investment-related services to the City Treasurer's Office; and (viii) other attributes as may be determined by the City Treasurer from time to time. The City Treasurer may determine the number and nature of firms to be retained to provide investment-related services based upon the volume of existing and projected investment work. Those firms that are selected to execute transactions on behalf of the City shall do so in a good faith manner and in the best interests of the City, and shall disclose to and advise the investment officers of material facts that bear upon the pricing of a given transaction order given by investment officers. All financial institutions executing investment transactions shall satisfy the requirements of Government Code section 53601.5. All depositories shall satisfy the institutional qualifications and security requirements described in Government Code sections 53648 et seq.

B. *Performance Review*

All financial institutions and depositories shall maintain the qualifications and attributes deemed appropriate by the City Treasurer, including, but not limited to those enumerated in subsection A above, and shall perform their duties in a satisfactory manner. The City Treasurer, at his or her discretion, shall conduct periodic performance reviews to ensure the institutions and depositories are providing services in the best interests of the City.

V. Safekeeping and Custody

A. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

B. *Safekeeping*

Securities will be held by an independent third-party custodian selected by the City Treasurer. The inventory and value of cash and securities held by the custodian will be reconciled on a daily basis. The

custodial institution shall annually provide a copy of their most recent report on internal controls in accordance with Statement on Standards for Attestation Engagements No. 18, or SSAE 18.

C. *Internal Controls, Investment Procedures Manual*

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to guide the activities of the investment officers to ensure that the assets of the City are protected from loss, theft or misuse. Details of the internal controls system shall be documented in the Investment Procedures Manual and shall be reviewed and updated annually, as needed. The internal control structure shall 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 internal controls structure shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Avoidance of physical delivery securities
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the City Treasurer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the City annual independent audit.

VI. Suitable and Authorized Investments

A. *Investment Types*

Allowable investments of funds not required for the immediate use by the City are limited to those described in Government Code sections 16429.1 (Local Agency Investment Fund), 53601 (investment of surplus), 53601.8 (certificates of deposit), 53635 (purchase of commercial paper by pools) and 53638 (bank deposits), as such statutes may be amended or renumbered from time to time. These allowable investments, and their permitted amounts and attributes, are set forth in a summary prepared and updated from time to time by the California Debt and Investment Advisory Commission ("CDIAC") entitled, "Allowable Investment Instruments Per State Government Code, Applicable To All Local Agencies," included CDIAC's "Local Agency Investment Guidelines" publication that may be located at http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf

B. *Extended Maturities*

The investment officers will observe the maximum maturity term of five years on various of the allowable investments. However, where a particular investment is found by the investment officers to be advantageous and consistent with these policies, but for a nominal exceedance of a 5-year maximum maturity caused by effect of the security's issuance and maturity dates, or the settlement date of the transaction, or both, they are authorized to invest in the following obligations with remaining maturities of five (5) years, plus not more than thirty (30) calendar days: U.S. Treasury obligations, obligations of California or other states, California local agency obligations, U.S. Agency obligations and medium-term notes. The City Treasurer will provide notice to the City Council of such investments within periodic investment reports made to the Council. See, Section VIII.A. Pursuant to Government Code section 53601, investment officers shall not make investments in instruments with maturities longer than five (5) years, plus thirty (30) calendar days, without prior approval of the City Council.

C. *Securities Lending*

The investment officers at their discretion may engage in securities lending activities pursuant to securities lending agreements (as defined in Government Code section 53601(j)(5)(D)) provided that the following are satisfied:

1. Securities lending transactions are to be governed by agreements entered into by the City Treasurer and the agent or agents the City Treasurer engages to perform such transactions provided that such agreements

    (a) comply with the requirements of Government Code section 53601(j), and

    (b) require the payment of cash collateral equal to or greater than 102% of the market value of the loaned security at the time of the loan.

2. The securities lending agreements may allow for the use of cash collateral for the reinvestment in securities that

    (a) comply with the requirements of Government Code section 53601(j)(3)(D), and

    (b) are securities whose direct investment is authorized by Government Code section 53601 and these policies,

    (c) provided that nothing herein shall preclude the City Treasurer from entering into securities lending agreements that reduces the scope of investments made with cash collateral to something less than that allowed under subsections (a) and (b) above.

VII. Investment Parameters

A. *Diversification*

The City shall diversify its investment portfolio. To minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or type of securities, all cash and cash equivalent

assets in all City funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised on an ongoing basis by the investment officers for all funds covered by these investment policies. In establishing specific diversification strategies, these investment policies shall apply. The investment officers shall emphasize that portfolio maturities will be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

B. *Cash Management Funds*

1. Liquidity shall be assured through practices ensuring that the payroll dates and dates of large disbursements are covered through maturing investments or marketable U.S. Treasury bills.

2. Positions in securities having potential default risk shall be limited in size pursuant to the maximum limits set forth in Government Code section 53601. Such securities include the following: Commercial paper; negotiable certificates of deposit, and Banker's Acceptances.

3. Risks of market price volatility shall be controlled through maturity diversification.

4. Liquidity risk: Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LAIF, money market funds, overnight repurchase agreements, and/or marketable securities that can be sold to raise cash in one day's notice, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

C. *Competitive Bids*

The investment officers shall obtain competitive bids from at least two brokers or financial institutions on all purchases and sales of investment instruments executed on the secondary market for consideration in excess of $15 million per purchase transaction.

VIII. Reporting

A. *Investment Reports*

The City Treasurer shall present to the City Council, the City Manager and the City's internal auditor monthly investment reports that include the transactions as required by Government Code section 53607.

B. *Marking to Market*

For purposes of preparation of the investment reports, the market value of the portfolio shall be calculated. In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

C. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this statement of policies. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken.

IX. Policy Considerations

A. *Exemption*

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy, provided that the City Treasurer may take steps he or she deems appropriate to address non-compliant investments in the best interest of the City and pool participants. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. *Amendments*

This policy shall be reviewed annually by the investment officers. Any change must be approved by the City Treasurer, followed by review and consideration by the City Council pursuant to Section X of these policies.

X. City Council Consideration of Investment Policy

This policy shall be reviewed and considered by the City Council on an annual basis pursuant to Government Code section 53646(a)(2).

XI. Miscellaneous

A. *Statutory References*

All statutory references cited in these policies shall refer to the statute as it may be amended or renumbered from time to time.

Exhibit A

CITY OF SACRAMENTO
INVESTMENT POLICY

The purpose of this document is to set forth the investment and operational policies for the management of the public funds of the City of Sacramento. These policies are designed to ensure the prudent management of public funds under management by the Sacramento City Treasurer.

Although the Sacramento City Charter generally provides the City Treasurer with the authority to deposit and invest funds in the City Treasury, undertaking of the investment activities by the City Treasurer is subject to the annual delegation of investment authority from the City Council as the body being primarily responsible for the investment of City funds. Accordingly, these policies are applicable to the management of City treasury funds as that task may be delegated to the City Treasurer.

A copy of this policy statement will be provided to all investment brokers and dealers and others in related fields doing business with the City of Sacramento, and will be provided to other interested parties on request. In addition, this policy statement will be posted to the City Treasurer's page of the City's internet website.

An entity retained to provide investment-related services to the City of Sacramento shall not render services unless and until it confirms, in writing, that it has received and reviewed this policy statement, and is prepared to implement its terms, as applicable to the services to be provided by the entity.

I. Governing Authority; Scope

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. These policies shall apply to the City Treasurer's investment of City treasury funds.

The City Treasurer investment program for Pool A treasury funds shall be operated in conformance with applicable federal, state, and other legal requirements. This policy statement is intended to conform to Government Code sections 53600, et seq, and interpretation of these policies shall be consistent with those statutes.

II. Objectives

A. Primary Objectives

The primary objectives of investment activities, in order of priority, are safety, liquidity, and yield:

1. *Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk.

(a) Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. The City will minimize credit risk by:

(i) Limiting investments to the types of securities listed in Section VI of this Investment Policy

(ii) Re-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section IV.

(iii) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

(b) Interest Rate Risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The City will minimize interest rate risk by:

(i) Structuring the investment portfolio 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

(ii) Investing operating funds primarily in shorter-term securities, money market mutual funds, the Local Agency Investment Fund ("LAIF") managed by the State of California, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or LAIF which offer same day liquidity for short-term funds.

The staff of the City Treasurer's Office shall (i) monitor the City's budget formation and approval process and (ii) actively engage with City staff to assess and manage cash flow needs of the City.

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the low level of risk being assumed.

Securities shall generally be held until maturity with the following exceptions:

(a) A security with declining value may be sold early to minimize loss of principal.

(b) A security swap would improve the quality, yield, or target duration in the portfolio.

(c) Liquidity needs of the portfolio require that the security be sold.

(d) Where the sale of the security to realize capital gains is advisable in the judgment of the investment officers.

B. Other Objectives

1. *Pooling of Funds*

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds proportionately based on their respective participation and in accordance with generally accepted accounting principles. The pooling of funds shall have no effect on the legal character of the pooled funds, i.e. funds whose use is restricted by law shall remain restricted and cannot be used as part of the City's general fund.

2. *Local Considerations/Community Investments*

Where possible, as a secondary objective, funds may be invested for the betterment of the local economy. The City Treasurer may accept a proposal from an "eligible local community institution" that provides for a reduced rate of interest provided that such institution documents the use of deposited funds for local community development projects. To qualify as an "eligible local community institution", the following criteria must be met:

- An eligible local community institution is defined as being headquartered in counties in and around Sacramento, including but not limited to Placer, El Dorado, Sutter, and Yolo.

- An eligible local community institution shall have over 50% ownership tied to the local community. Both private and publicly traded companies must submit an ownership breakdown of the institution if requested by The City Treasurer to satisfy the 50% local ownership requirement.

- To be recognized as an eligible local community institution the entity must have had a 5 star "Superior" Rating from either Bauer Financial or IDC Financial Publishing for the past 4 consecutive quarters. Eligible institutions must submit their quarterly ratings to the City Treasurer's office and maintain their 5-star rating continuously. If an eligible local community institution drops below the required 5-star rating, they will have 1 quarter to cure the deficiency. If in the following quarter the institution does not re-achieve a 5-star rating with the same independent rating company, the City may withdraw funds allocated to that institution.

- Institutions who receive deposits from the City as part of a local community investment not eligible for FDIC insurance must be secured by collateral of 110% as described in California Government Code Section 53651 and 53652.

- Institutions who receive deposits from the City as part of a local community investment must commit to invest 50% of the deposits in the local community, within the City of Sacramento City limits

- Institutions must provide a detailed semi-annual report to the City Treasurer's Office that shows evidence that the institution is meeting the 50% local community investment mandate on the City's deposits. When available, semi-annual reports should include demographic information from borrowers if available. If an institution cannot provide evidence that it has met the 50% local community investment criteria, the City may withdraw its deposits from the institution.

- As a matter of prudence, the amount the City Treasurer may invest in eligible local community institutions will be limited to 1% of the institution's total assets, as determined by the quarterly independent financial reports. If, during the course of an investment with an eligible local institution, the City exceeds the maximum 1% deposit level, the City may withdraw any funds in excess of the limit to cure the deficiency.

- The city may place deposits with eligible local community institutions up to a total of 7.5% of the total in the City's portfolio. If this amount is exceeded the City may withdraw funds from any institution to reduce the total community investment back below the maximum.

Although an eligible local community institution may meet all of the above stated criteria, it is not a guarantee that the City will maintain deposits. The City Treasurer retains the right to make deposit and withdrawal decisions based on the Primary Objectives of the Investment Policy stated above.

3. *Favored Investments*

Investments are encouraged in entities that have demonstrated significant commitment and cooperation (a) with foreclosure prevention efforts, including, without limitation, temporary moratoriums on foreclosures, renegotiation of the principle mortgage balances to reflect current values, and other good faith negotiations with homeowners in regard to delinquent mortgages, and/or (b) in offering free or low-cost banking services to low- and moderate-income residents who are part of the traditionally "unbanked" or "under-banked" population. The City Treasurer may take into consideration the level of effort an entity expends in either the foreclosure relief or community banking areas, or both, when considering competing investments. If the City Treasurer is satisfied with the record of an entity in regard to such efforts, then the Treasurer's investment staff may invest in the securities of the entity, provided that the investment is otherwise consistent with the requirements of this Investment Policy statement.

4. *Socially Responsible Investments*

Socially Responsible investments standards are integral to an impact-driven and financially prudent investment policy that aligns City investments with broader societal objectives. Adopting these standards will better align with the guiding principles of the City's 2040 General plan. The investment of City funds shall follow a set of socially responsible principles and standards based on the screening criteria outlined below. The City Treasurer will use these criteria to inform investment decisions to the extent that they do not compromise the primary investment objectives which are, in order of priority, safety, liquidity and yield; nor the City's "prudent person" standards:

a. No investments shall be made in companies involved in the manufacturing of tobacco or tobacco-related products.

b. No investments shall be made in individual publicly traded fossil fuel companies

c. No investments shall be made in companies found to have committed or enabled severe violations of human rights and international humanitarian laws; including but not limited to child labor, forced labor, and forced community resettlement; whether domestically or internationally.

d. No investments shall be made in companies whose primary operations are the production of chemical or biological war weapons or bombs nor the production of automatic or semi-automatic rifles, ghost guns, machine guns, and crew-served weapons, marketed for civilian sale and use.

e. No investments shall be made in companies whose primary business activities are involved in mass incarceration and detention, including but not limited to investments in companies that build, own, operate or service private prisons; nor in companies that use prison labor.

f. No investments shall be made in companies whose primary objective is the facilitation of or involved in immigration detention, nor in companies providing surveillance technology.

g. Investments shall, when feasible, prioritize local financial institutions, companies, and organizations that actively engage in objectives that directly support the well-being of all Sacramento city residents. Examples include securities that support community development, green municipal bonds that finance sustainable energy, transportation, and infrastructure as consistent with Local Considerations/Community Investments detailed in Section 2.

III. Standards of Care

A. *Prudence*

In accordance with Government Code section 53600.3, the standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures developed by the City Treasurer and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided extraordinary deviations from expectations are reported by subordinate investment officers to the City Treasurer in a prompt fashion and that the sale of securities is carried out in accordance with the terms of this policy.

Pursuant to the "prudent person" standard, investment officers 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. Funds shall be managed not for speculation where the sole goal of a transaction is to increase principal balances, but for investment intended to earn a reasonable rate of return on invested funds, considering the probable safety of their

capital as well as the probable income to be derived. Despite that investment transactions are undertaken with care pursuant to the "prudent person" standard, it is recognized that invested funds are subject to the vagrancies of the markets beyond the control of the investment officers.

B. *Ethics and Conflicts of Interest*

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

Investment officers shall file State Fair Political Practices Commission's Statement of Economic Interests and make the disclosures required by the City's conflict of interest policies.

C. *Delegation of Authority*

Authority to manage the City treasury investment program is granted to the City Treasurer pursuant to Sacramento City Charter section number 73, unless the Charter specifically indicates otherwise, subject to annual delegation of investment authority by the City Council pursuant to Government Code section 53607. Pursuant to the City Charter, the City Treasurer also is authorized to appoint deputies and employees, as prescribed by Council resolution, to implement the investment program. The City Treasurer and those employees appointed by the Treasurer to perform investment activities pursuant to these policies shall be referred to herein collectively as "investment officers."

Investment officers shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy ("Investment Procedures Manual"). Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures manual. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate their activities.

IV. Authorized Financial Institutions, Depositories, and Broker/Dealers

A. Selection

Financial institutions and depositories involved in implementing the City Treasurer's investment activities are selected on a competitive basis in order to obtain high quality services by reliable, reputable and stable entities. The competitive process may be formal or informal, as determined by the City Treasurer in his or her discretion, with the objective of obtaining the quality of services necessary to serve the best interests of the City and relevant stakeholders, with services performed at competitive fees and rates. Such processes may occur from time to time by the City Treasurer's Office whether at the time the City Treasurer contracts for the general banking services or otherwise. The firm or firms providing investment-related services may or may not be, at the discretion of the City Treasurer, the same firm providing general banking services. Among the factors that the City Treasurer may consider in obtaining such services are (i) minimum qualifications pertaining to capacity, satisfaction of requirements to conduct required business, i.e. licenses, permits, registrations, certifications, etc.; (ii) capitalization; (iii) insurance and bonding; (iv) safekeeping and custodial experience; (v) status in good standing; (vi) ability and capacity of the firm to provide a full range of services as may be required by the City Treasurer; (vii) extent of the value added by an entity over the services provided by firms then-providing investment-related services to the City Treasurer's Office; and (viii) other attributes as may be determined by the City Treasurer from time to time. The City Treasurer may determine the number and nature of firms to be retained to provide investment-related services based upon the volume of existing and projected investment work. Those firms that are selected to execute transactions on behalf of the City shall do so in a good faith manner and in the best interests of the City, and shall disclose to and advise the investment officers of material facts that bear upon the pricing of a given transaction order given by investment officers. All financial institutions executing investment transactions shall satisfy the requirements of Government Code section 53601.5. All depositories shall satisfy the institutional qualifications and security requirements described in Government Code sections 53648 et seq.

B. *Performance Review*

All financial institutions and depositories shall maintain the qualifications and attributes deemed appropriate by the City Treasurer, including, but not limited to those enumerated in subsection A above, and shall perform their duties in a satisfactory manner. The City Treasurer, at his or her discretion, shall conduct periodic performance reviews to ensure the institutions and depositories are providing services in the best interests of the City.

V. Safekeeping and Custody

A. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

B. *Safekeeping*

Securities will be held by an independent third-party custodian selected by the City Treasurer. The inventory and value of cash and securities held by the custodian will be reconciled on a daily basis. The

custodial institution shall annually provide a copy of their most recent report on internal controls in accordance with Statement on Standards for Attestation Engagements No. 18, or SSAE 18.

C. *Internal Controls, Investment Procedures Manual*

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to guide the activities of the investment officers to ensure that the assets of the City are protected from loss, theft or misuse. Details of the internal controls system shall be documented in the Investment Procedures Manual and shall be reviewed and updated annually, as needed. The internal control structure shall 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 internal controls structure shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Avoidance of physical delivery securities
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the City Treasurer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the City annual independent audit.

VI. Suitable and Authorized Investments

A. *Investment Types*

Allowable investments of funds not required for the immediate use by the City are limited to those described in Government Code sections 16429.1 (Local Agency Investment Fund), 53601 (investment of surplus), 53601.8 (certificates of deposit), 53635 (purchase of commercial paper by pools) and 53638 (bank deposits), as such statutes may be amended or renumbered from time to time. These allowable investments, and their permitted amounts and attributes, are set forth in a summary prepared and updated from time to time by the California Debt and Investment Advisory Commission ("CDIAC") entitled, "Allowable Investment Instruments Per State Government Code, Applicable To All Local Agencies," included CDIAC's "Local Agency Investment Guidelines" publication that may be located at http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf

B. *Extended Maturities*

The investment officers will observe the maximum maturity term of five years on various of the allowable investments. However, where a particular investment is found by the investment officers to be advantageous and consistent with these policies, but for a nominal exceedance of a 5-year maximum maturity caused by effect of the security's issuance and maturity dates, or the settlement date of the transaction, or both, they are authorized to invest in the following obligations with remaining maturities of five (5) years, plus not more than thirty (30) calendar days: U.S. Treasury obligations, obligations of California or other states, California local agency obligations, U.S. Agency obligations and medium-term notes. The City Treasurer will provide notice to the City Council of such investments within periodic investment reports made to the Council. See, Section VIII.A. Pursuant to Government Code section 53601, investment officers shall not make investments in instruments with maturities longer than five (5) years, plus thirty (30) calendar days, without prior approval of the City Council.

C. *Securities Lending*

The investment officers at their discretion may engage in securities lending activities pursuant to securities lending agreements (as defined in Government Code section 53601(j)(5)(D)) provided that the following are satisfied:

1. Securities lending transactions are to be governed by agreements entered into by the City Treasurer and the agent or agents the City Treasurer engages to perform such transactions provided that such agreements

    (a) comply with the requirements of Government Code section 53601(j), and

    (b) require the payment of cash collateral equal to or greater than 102% of the market value of the loaned security at the time of the loan.

2. The securities lending agreements may allow for the use of cash collateral for the reinvestment in securities that

    (a) comply with the requirements of Government Code section 53601(j)(3)(D), and

    (b) are securities whose direct investment is authorized by Government Code section 53601 and these policies,

    (c) provided that nothing herein shall preclude the City Treasurer from entering into securities lending agreements that reduces the scope of investments made with cash collateral to something less than that allowed under subsections (a) and (b) above.

VII. Investment Parameters

A. *Diversification*

The City shall diversify its investment portfolio. To minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or type of securities, all cash and cash equivalent

assets in all City funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised on an ongoing basis by the investment officers for all funds covered by these investment policies. In establishing specific diversification strategies, these investment policies shall apply. The investment officers shall emphasize that portfolio maturities will be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

B. *Cash Management Funds*

1. Liquidity shall be assured through practices ensuring that the payroll dates and dates of large disbursements are covered through maturing investments or marketable U.S. Treasury bills.

2. Positions in securities having potential default risk shall be limited in size pursuant to the maximum limits set forth in Government Code section 53601. Such securities include the following: Commercial paper; negotiable certificates of deposit, and Banker's Acceptances.

3. Risks of market price volatility shall be controlled through maturity diversification.

4. Liquidity risk: Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LAIF, money market funds, overnight repurchase agreements, and/or marketable securities that can be sold to raise cash in one day's notice, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

C. *Competitive Bids*

The investment officers shall obtain competitive bids from at least two brokers or financial institutions on all purchases and sales of investment instruments executed on the secondary market for consideration in excess of $15 million per purchase transaction.

VIII. Reporting

A. *Investment Reports*

The City Treasurer shall present to the City Council, the City Manager and the City's internal auditor monthly investment reports that include the transactions as required by Government Code section 53607.

B. *Marking to Market*

For purposes of preparation of the investment reports, the market value of the portfolio shall be calculated. In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

C. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this statement of policies. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken.

IX. Policy Considerations

A. *Exemption*

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy, provided that the City Treasurer may take steps he or she deems appropriate to address non-compliant investments in the best interest of the City and pool participants. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. *Amendments*

This policy shall be reviewed annually by the investment officers. Any change must be approved by the City Treasurer, followed by review and consideration by the City Council pursuant to Section X of these policies.

X. City Council Consideration of Investment Policy

This policy shall be reviewed and considered by the City Council on an annual basis pursuant to Government Code section 53646(a)(2).

XI. Miscellaneous

A. *Statutory References*

All statutory references cited in these policies shall refer to the statute as it may be amended or renumbered from time to time.