

CITY OF MARTINEZ INVESTMENT POLICY

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I. PURPOSE

The purpose of this Investment Policy for the City of Martinez (the City) is to provide guidance and direction for the prudent investment of City funds and to foster the creation of a systematic and controlled investment process. The ultimate goal is to maximize the efficiency of the City's cash management system and to enhance the economic status of the City while protecting its pooled investment cash. This policy was developed in accordance with California Government Code Sections 53600 *et seq.*

II. POLICY

It is the policy of the City of Martinez to invest public funds in a manner which will provide maximum security, meet the daily cash flow demands of the City and provide highest investment return while conforming to all California laws and local statutes governing the investment of public funds. It is also the policy of the City that all funds not required for immediate budgeted expenditures be invested in compliance with this Investment Policy

III. SCOPE

This Investment Policy applies to all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the most current annual financial report and include: General Fund, Capital Projects Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds. The investment of bond proceeds is governed separately by the provision of the relevant bond documents.

IV. PRUDENCE

The standard of prudence to be used for managing the City's investment program is California Government Code Section 53600.3, the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The City Treasurer and other individuals assigned to manage the investment portfolio, acting in accordance with written procedures 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 deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

V. OBJECTIVES

The City's funds shall be invested in accordance with all applicable City policies and codes, state and local statutes and federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- A. 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 that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City may elect to sell a security prior to its

maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the City's risk preferences.

- B. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- C. 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.

VI. DELEGATION OF AUTHORITY

Section 53636 of the Government Code of the State of California provides that money on deposit is deemed to be in the treasury of the City. Although the responsibility for conducting the City's investment program resides with the Treasurer, the day-to-day investment function is hereby delegated to the Finance Director or Assistant City Manager for Administrative Services.

VII. PUBLIC TRUST

All participants in the investment process shall act reasonably as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio investment return, provided that adequate diversification has been implemented.

Investments are to be made that will bear in mind the responsibility of city government to its citizens. Investments that encourage the betterment of the human condition will be sought. Alternative investments that enhance the quality of life will be given full consideration. Investments that serve to only enrich a few to the detriment of the people will be strictly avoided.

VIII. ETHICS AND CONFLICT OF INTEREST

All personnel responsible for authorizing the purchase of investments shall refrain from personal business activities that could conflict with proper execution of the investment program and/or which could impair their ability to make impartial investment decisions. The City Treasurer, Finance Director or Assistant City Manager for Administrative Services and other key Finance personnel shall file a Statement of Economic Interests each year as required by California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

IX. AUTHORIZED BROKER DEALERS AND COMPETITIVE TRANSACTIONS

The City may contract with professional money managers to assist in the management of all or part of its investment portfolio in compliance with the guidelines outlined in this Investment Policy. If the City Treasurer directly invests in individual securities, then the City will maintain a list of financial institutions and primary dealers authorized to provide investment services. Professional money managers working with the City may maintain their own list. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission ("SEC") Rule 15C3-1 (uniform net capital rule). The City Treasurer, Assistant City Manager for administrative services or Finance Director will determine which financial institutions are authorized to provide investment services to the City.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the investment adviser. The investment advisors shall provide the City with a copy of

its approved broker dealer list no less than annually or at any time upon request of the City.

It is the policy of the City to require competitive bidding from at least three brokers/dealers for investment transactions that are not classified as “new issue” securities whenever possible and practical. Such competitive bidding may be executed through the use of a nationally recognized trading platform. It is understood that competitive bidding may not always be feasible for all securities, for example, secondary market offerings that are unique to a particular broker/dealer. In such circumstances where competitive price comparisons are not available, best efforts will be made to document quotations for comparable or alternative securities. Competitive solicitations wherein at least three brokers/dealers are queried but only one bid or offer is received shall satisfy the competitive bidding requirements of this investment policy.

X. MAXIMUM MATURITY & DURATION

The City may not invest in a security with a maturity date that exceeds five years from the date of purchase.

For purposes of compliance with this Policy, an investment’s term or remaining maturity shall be measured from the settlement date to final maturity. In addition, a security purchased shall not have a forward settlement date exceeding 45 days from the time of investment.

In addition to the individual security maturity limitations set forth in this investment policy, the weighted average duration of the actively managed portion of the portfolio, i.e. non liquidity funds, shall be maintained in a range of +/- 25% the duration of a market benchmark as selected by the City based upon the City’s risk tolerances and investment objectives. Portfolio duration may deviate from this range at the City’s discretion based upon prevailing facts and circumstances.

XI. AUTHORIZED INVESTMENTS

All investments and deposits of City funds shall be made in accordance with California Government Code Sections 53600 *et seq.* Within the context of code limitations, the following investments and their respective additional limitations are authorized:

The security credit rating requirements of this investment policy shall apply at the time the time of purchase. It is important to note that from time to time the City may be invested in a security whose rating is downgraded subsequent to the original date of purchase. The City Treasurer, Assistant City Manager for administrative services or Finance Director, directly or indirectly through the delegation of authority to the investment advisor, shall monitor the status of security ratings. When the City uses the services of outside investment advisors and a rating of a prior-purchased security drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the City Treasurer, Assistant City Manager for administrative services or Finance Director within two business days of the ratings downgrade and recommend whether such securities should be sold or retained in the portfolio based upon its remaining term to maturity, the credit outlook for the issuer, and other relevant facts and circumstances.

A. United States Treasury bills, bonds and notes or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of U.S. Treasury obligations that may be held in the City's portfolio.

- B. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises with maturities not exceeding five years from the date of trade settlement.
- C. Shares of beneficial interest issued by diversified management companies, that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services or (2) retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of \$500 million. The purchase price of shares shall not exceed 20 percent of the investment portfolio of the City.
- D. State of California Local Agency Investment Fund. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. There is no limit on the percentage of LAIF that may be held in the City's portfolio. LAIF investments are subject to statutory limits. The LAIF portfolio should be reviewed periodically.
- E. Shares of Beneficial Interest issued by a Joint Powers Authority, including the California Asset Management Program (CAMP), California CLASS and CalTrust. The Joint Powers Authority issuer must meet the requirements as defined within CA Code Section 53601(p). There is no limit on the percentage that may be held in the City's portfolio.
- F. Commercial Paper of "prime" quality of the highest ranking or the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization (NRSRO). Purchases must be limited to corporations organized and operating within the United States, having assets in excess of \$500 million and having debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization (NRSRO). . No more than 5% of the City's total portfolio may be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 25% of the City's total portfolio. The maximum maturity of commercial paper cannot exceed 270 days from the date of trade settlement.
- G. Bankers' Acceptances with a maturity not exceeding 180 days from the date of trade settlement, drawn on or accepted by a FDIC insured commercial bank with combined capital and surplus of at least \$250 million and rated in a rating category of A-1 or its equivalent or higher by a NSRO at the time of purchase and whose senior long-term debt is rated in a rating category of "A" or its equivalent or higher by a NRSRO at the time of purchase. No more than 5% of the City's total portfolio shall be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 30% of the City's total portfolio.
- H. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States with a final maturity not exceeding five years from the date of trade settlement. These notes must be rated in a rating category of "A" or its equivalent or better by a NRSRO. No more than 5% of the City's total portfolio shall be invested in medium term notes of any one issuer, and the aggregate investment in medium term notes shall not exceed 30% of the City's total portfolio.

I. Negotiable Certificates of Deposit with a final maturity not exceeding five years issued by a nationally or state-chartered bank, savings association or federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. Negotiable CD issuers must be rated in a rating category of “A” or its equivalent or better by two NRSROs. No more than 5% of the portfolio shall be held in any one deposit or allocated to any one issuer, and the aggregate investment in non-negotiable certificates of deposit and negotiable certificates of deposit shall not exceed 30% of the City’s total portfolio.

XII. PROHIBITED INVESTMENTS

Ineligible investments, those that are not described herein, including but not limited to, common stocks or long term (over five years in maturity) notes and bonds, are prohibited from use in this portfolio.

The City discourages investments in companies that receive revenues from the production, manufacturer or sale of tobacco products including investment pools that receive more than 15% of gross revenues from the production, manufacture or sale of tobacco products.

XIII. SAFEKEEPING AND CUSTODY

All security transactions entered into by the City shall be conducted on a delivery versus payment (DVP) basis as evidenced by safekeeping receipts in the City’s name and shall be delivered to the City or the City’s designated custodian upon receipt of payment by the City. The DVP basis for delivery applies also to the delivery and safekeeping of repurchase agreement collateral.

XIV. DIVERSIFICATION

The City’s investment portfolio shall be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

XV. INTERNAL CONTROLS

The Finance Department will establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, segregation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, documentation of transactions and strategies and code of ethical standards.

XVI. PERFORMANCE STANDARDS

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City’s investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio’s weighted average effective maturity. When comparing the performance of the City’s portfolio, its rate of return will be computed net of all fees and expenses.

XVII. REPORTING

The Treasurer shall render to the City Manager and City Council a quarterly report which provides a clear picture of the status of the current investment portfolio. The report shall include the following information on investments:

- A. Listing of individual securities held at the end of the reporting period by authorized investment category
- B. Average life and final maturity of all investments
- C. Coupon, discount or earnings rate
- D. Par value, amortized book value and market value

The quarterly report shall also include a statement of compliance with this Investment Policy or an explanation for non-compliance and a statement of the City's ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.

XVIII. REVIEW, ADOPTION & AMENDMENTS

The City's Investment Policy shall be adopted by resolution of the City Council. This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its compliance with current law. Any amendments to the Investment Policy must be approved by the City Council.