



**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
STAFF REPORT**

Agenda Item No. 5B  
September 16, 2021

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Scott Catlett, Finance Director/Treasurer  
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**SUBJECT: ANNUAL REVIEW OF INVESTMENT POLICY**

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**SUMMARY:**

Consistent with Section K-2 of Council Policy F-1, Statement of Investment Policy (the Policy), the Finance Department has completed an annual review of the Policy to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, as well as its relevance to current law and financial and economic trends. The investment of City funds is governed by the California Government Code (Sections 53600-53610), which prescribes the investment vehicles in which local agencies are permitted to invest available funds. Staff, working with the City's investment advisor Chandler Asset Management (Chandler), has completed a comprehensive review of the Policy including compliance with relevant sections of the Government Code, as well as, incorporating best investment practices. Staff is proposing a series of modifications to the Investment Policy as recommended by the City's investment advisor, Chandler, and supported by the City's Finance Director/Treasurer.

**RECOMMENDED ACTION:**

Review and discuss this report and recommend that Council formally approve the proposed changes by adopting a resolution. These changes are in furtherance of the City's investment objectives.

**DISCUSSION:**

California Government Code Section 53600.5 mandates that the City Treasurer shall follow three objectives when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds. The primary objective of the City Treasurer shall be to safeguard the principal of the funds under his or her control. The secondary objective

shall be to meet the liquidity needs of the City. The third objective shall be to achieve a return on the funds under his or her control. Guided by the Policy and constrained by California Government Code, the City's core investment objectives are to provide safety of the invested principal by maintaining a well-diversified, high-quality portfolio of liquid assets while earning a market rate of return commensurate with the City's conservative risk profile.

Based on Chandler's recent review of the City's Investment Policy, the following significant changes to the Investment Policy are recommended:

**Authorized Investments – Federal Instrumentality (Section G.1.b, page 7)** – Recommend adding a 30% per issuer limit per best practices and 20% maximum of the total portfolio that can be invested in callable agency securities to mitigate call risk in the portfolio.

**Authorized Investments – Prime Commercial Paper (Section G.1.i.iii, page 10)** – SB 998, which became effective January 1, 2021, permits the purchase of up to 40% of the City's investable assets in qualifying commercial paper until January 1, 2026, provided that the City's investable assets under management are greater than \$100 million.

**Investments Specifically Not Permitted (Section G.2, page 13)** – Included language to allow for the purchase of U.S. Government securities with a zero or negative interest accrual if held to maturity. SB 998 permits the purchase of these securities until January 1, 2026. Only in exigent circumstance after all other options have been exhausted would we consider purchasing these securities. The change would align the policy with the California Government Code.

**Credit Quality (Section H.3, page 14)** – Updated downgrade policy to allow the investment manager to act on a security that is downgraded below policy minimums in the event that the Finance Director is unable to be reached.

See the redline Statement of Investment Policy for the recommended changes included as Attachment A.

**Conclusion**

Staff recommends that the Finance Committee review this report and recommend that Council formally approve the proposed changes by adopting a resolution.

Prepared and Submitted by:

/s/ Steve Montano

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Steve Montano  
Deputy Finance Director

Attachment:

A. Proposed Statement of Investment Policy F-1 (Redlined)