SONOMA COUNTY
TREASURY OVERSIGHT COMMITTEE
MINUTES

August 16, 2023 – 10:00 am

Members Present:	Erick Roeser (ACTTC) (Chair), Jennifer Solito (CAO) (alternate for Christina Rivera, CAO), Greg Medici (SCOE) (alternate for Amie Carter, SCOE), Lynne Rosselli (alternate for Grant Davis, SCWA)
Members Absent:	Grant Davis (SCWA), Donna Dunk (Public Member), Amie Carter (SCOE), and (Schools, vacant).
Also Present:	Sarah Lampenfeld (SCOE), David Maurice (ACTTC), Dana Shern (ACTTC), Kathleen Parnell (ACTTC), Janina Horwitz (ACTTC), Gerald Richardson (Consultant), and Lisa Cavin (SR City Schools)

1. **CALL TO ORDER**
   Chair Erick Roeser called the meeting to order at 10:01 am.

2. **APPROVAL OF FEBRUARY 8, 2023, MEETING MINUTES**
   There were no corrections made to the prior Meeting Minutes. A motion to approve the prior Minutes was made by Greg Medici, seconded by Lynne Rosselli.
   Ayes: 4 Noes: 0 Abstain: 0 Absent: 2

3. **APPOINTMENT OF NEW CHAIR AND VICE CHAIR**
   Greg Medici moved to have the Vice Chair be occupied by the representative from the Sonoma County Office of Education and for Erick Roeser to continue as the Chair. Lynne Rosselli seconded the motion.
   Ayes: 4 Noes: 0 Abstain: 0 Absent: 2

4. **CALL FOR ANNUAL EXAMINATION**
   Erick Roeser stated that Pisenti and Brinker LLP (P&B) have satisfactorily performed the annual examination for the past several years, and that they are currently under a broad contract with the ACTTC. He recommended that the TOC continue to engage with P&B. Greg Medici moved to engage with P&B for the examination, with Lynne Rosselli seconding.
   Ayes: 4 Noes: 0 Abstain: 0 Absent: 2

5. **PRESENTATION & REVIEW OF QUARTERLY REPORT DATED JUNE 30, 2023**
   David Maurice reviewed the performance of the Investment Pool (Pool) during the prior quarter. He noted that the current interest rate environment continues to be the type that is most problematic for the Pool due to the way that prices of investments respond to the increases in

market yields. Interest rates have reached 5.25%, as the Federal Reserve approaches the end of their tightening cycle in response to the highest US inflation in the past 40 years. He indicated that the Fed may be near the end of its cycle, and rates may rise over the next six months, but it is currently anticipated at a slower pace.

As an increase in yields is inversely related to price, the rise in rates causes a decrease in the market value of current Pool holdings, which leads to an unrealized loss. Unrealized losses (and gains) are reported in the County's annual financial reports. Since the Pool's securities are generally held to maturity, Treasury does not anticipate realizing material net losses for Pool participants, except at times where a security is called or sold opportunistically. However, there will be a period of time where the Pool's overall yield will be below current market averages due to the fact that a large portion of Pool investments were purchased during the low interest rate period over the last two years. In other words, due to the maturity structure of the portfolio, the yield on the portfolio will lag market interest rate increases. Going forward, higher yielding investments will be purchased as new funds are available to invest and lower yielding positions mature, and the Pool yield will move toward market averages, illustrated by the near doubling of the Pool's yield during the last six months. He expects that the yield on the Pool will continue to rise throughout 2023.

Mr. Maurice reviewed the structure of the Pool. The Treasurer is required to invest for three reasons, according to California Government Code: 1. Safety of principal, or a high degree of assurance that investments will mature without loss of principal, 2. Liquidity, or a measure of the Pool's ability to meet cash needs on behalf of participants; the Treasurer must certify that the Pool has six months' worth of liquid assets to meet needs, and 3. Producing a return on the Pool. The first two criteria take precedence over the third. He stated that the investment decisions are made considering both the near-term cash-flow needs and the longer-term expectations, with a view toward maximizing current yield and the yield accruing over the life of the investment. The yield curve is currently inverted, meaning that shorter maturities yield more than longer maturities, with the highest point on the yield curve currently at a tenor under 1 year. This is highly unusual, as typically yields increase with tenor, and the degree of inversion is extreme, with 2-year maturities yielding 1.25% more than 5-year securities. This means that investments beyond one-year at this point cause the portfolio to earn less in the current year, than it would by investing in shorter maturities. If yields fall over the next few years, those longer investments might prove to have better returns than rolling shorter term investments, but at this point that is unlikely. He stated that currently the only longer investment that have been made are ones where there is extra yield, such as on high quality insurance company debt.

Greg Medici asked if trading securities made sense in this environment, and if Treasury is currently doing that. Mr. Maurice responded that trading is allowed under Code and the IPS, but that it is not usually utilized as it leads to a divergence in the attribution of earnings with the composition of the participants in the Pool. But under some circumstances, it makes sense, as it may be possible to re-invest proceeds in a manner that compensates during the current quarter.

6. REPORT FROM GERALD RICHARDSON, CONSULTANT

Gerald Richardson presented his quarterly review of the Pool and stated that all investments continue to comply with California Government Code and IPS guidelines for maturity and credit rating, and that it has sufficient liquidity to meet anticipated cash flow requirements over the next six months. The portfolio's average maturity was 548 days at the end of the fiscal year, significantly shorter than the 651 days average maturity on June 30th, 2022. This is reflected in an increase in the percent of the portfolio maturing within one year rising from 30% to 44% (June 2022 to June 2023).

Mr. Richardson noted that the returns on the portfolio have historically kept pace with alternatives such as LAIF and were comparable to results achieved by a sampling of other large California county investment pools. The pool has fallen behind recently because of the longer weighted average maturity (WAM) employed by the County over the past year. With the shortening of the WAM, his opinion was that the County was much better prepared to take advantage of higher short-term rates available in the current inverted yield curve environment. Mr. Richardson agreed that the economy is at a turning point, with the Fed possibly raising rates once more even as economic growth moderates.

Kathy Parnell asked if there were concerns about the Fed over-tightening, and Mr. Richardson replied that seems unlikely as most measures of the economy's strength are still robust. There was a brief discussion about the failure of several moderately sized banks during the quarter, with Mr. Richardson pointing out that the banks were not large enough to have an impact on the economy. Mr. Maurice added that the Pool does not invest in smaller banks, with all exposure concentrated in large, Global Systemic Important Bank (G-SIBs), that are tightly regulated by multiple agencies in multiple jurisdictions and are subject to enhanced capital and liquidity rules and oversight.

7. STATUS OF VACANT SCHOOLS MEMBER

Sarah Lampenfield (SCOE) provided an update on the search for a representative of County Schools. She indicated that SCOE will soon reach out to all districts to consolidate on a proposed candidate soon. Erick Roeser announced that Donna Dunk, the public member is in the process of moving out of County, and while Government Code does allow for members to reside out of county, Donna indicated she would like to step down at the end of her term. David Maurice said that all nominees will need to be approved by the Board of Supervisors.

8. REVIEW OF COUNTY INVESTMENT POLICY

David Maurice presented a red-lined version of the County Investment Policy Statement, which when finalized, will be presented to the Board of Supervisors for approval along with the annual delegation of the authority to invest and reinvest funds in the County Treasury.

Erick Roeser discussed the major changes:

1. An explicit declaration under section 2, Standards of Care, calling for the application of the Prudent Investor Standard as Fiduciaries, and explicitly including the language from Government Code.
2. Moving the language concerning gifts and honoraria, etc. to section 26.
3. Modifying the language in section 3 concerning Rate of Return to align with Government Code.
4. Adding Section 4 regarding Cash Flow Analysis
5. Adding language in Section 8 to align the IPS to Code in regard to trade and settlement dates with respect to the maturity dates of investments.
6. Adding Section 9 directing investments to be made in a diversified portfolio of securities.
7. Adding Section 11 to align the IPS with Code, and to make explicit what actions are to be taken in the case of a holding falling in credit rating below the minimum for

purchase.

8. Adding Section 12 to outline the policy regarding trading or sale of securities prior to maturity.
9. Adding Section 14 to explicitly align the IPS with Code regarding the maximum maturity of securities purchased.
10. Modifying Section 18 to make the IPS clearer about JPA short term investments.
11. Adding Section 24 to focus on the role of the Treasury Oversight Committee

Erick stated that the revisions are still a work in progress, and that the TOC will receive copies of the final proposal to the Board.

9. FUTURE MEETING DATES

Future meetings are currently scheduled for February 14, 2024 and August 21, 2024.

10. PUBLIC COMMENT

There were no members of the public present.

11. ADJOURNMENT

The meeting was adjourned at 10:50 am

Respectfully submitted,

David Maurice, Investment & Debt Officer