

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(IBANK)**

STAFF REPORT – INVESTMENT POLICY

ISSUE:

IBank’s Investment Policy requires the IBank Board of Directors (Board) to review the most recently approved policy on an annual basis. The Investment Policy was originally adopted by the Board in 2006 and was thereafter amended from time to time. The Investment Policy was last reviewed and approved by the Board on December 16, 2020 (2020 Investment Policy). Staff is recommending amendments to that policy reflected in the redline version attached hereto as Attachment 1 by updating the review and approval date, amending various sections and adding a footnote to Exhibit A.

BACKGROUND:

It is considered a standard of “best investment practices¹” for government agencies to have a written investment policy, to review it annually, and to have frequent reporting of investment activities. IBank is in compliance with this practice.

On February 24, 2015, the Board approved several amendments to the then current Investment Policy. These amendments adjusted concentration limits in securities. On October 25, 2016, the Board approved a non-substantive change in Section 5.0-Delegation of Authority, which was updated to reflect a title change to Chief Deputy Executive Director from Deputy Executive Director. The 2017 Investment Policy reflected no changes and was reviewed and approved by the Board with a new approval date of September 26, 2017. On October 23, 2018, the Board approved several changes to the policy to modify or clarify language, update definitions and reorganize content within the then current Investment Policy. On October 23, 2019, the IBank Board approved one non-substantive change to correct a typographical error in the 2018 Investment Policy. On December 16, 2020, the IBank Board approved the 2020 Investment Policy, as presented.

REVIEW RESULTING IN PROPOSED ADMENDMENTS:

The current IBank Investment Advisory Committee (IAC) is comprised of Scott Wu, Executive Director; Clint Kellum, Chief Deputy Executive Director; Ross Culverwell, Chief Credit Officer; Jeffrey Ingles, Chief Compliance Officer; Michelle Jones, Fiscal Management Officer; and William Pahland, General Counsel as an de facto member. In prior years, IBank engaged the services of the municipal advisor retained for its direct bond issues to review the Investment Policy. In December 2021, IBank requested its investment advisor, Fiduciary Trust International of California (FTI), review the 2020 Investment Policy and provide suggested amendments. In addition, Mr. Wu, Mr. Kellum, and William Pahland, IBank’s General Counsel, performed an annual review of the 2020

¹ Source: California Debt and Investment Advisory Commission California Public Fund Investment Primer.

Investment Policy and provided suggested amendments to be incorporated into the 2021 Investment Policy. Therefore, IBank proposes amendments in various sections of the 2020 Investment Policy and a non-substantive change on Exhibit A to include certain references reflected in the text of Government Code, Section 16340.

PROPOSED AMENDMENTS:

IBank staff and FTI conducted a thorough review of the 2020 Investment Policy and are proposing several amendments. The following is a brief description of the proposed amendments: (Note: Sections not affected by the proposed amendments/changes are so noted.)

Section 1.0 - Policy

IBank recommends no changes to this section.

Section 2.0 - Scope

Amendments are proposed to include the entire breadth of investable assets and include additional references to Board-approved policies governing IBank's various programs. The amendment also proposes to explicitly state that the policy shall not apply to assets held on behalf of or as a result of transactions with conduit borrowers.

Section 3.0 - Objectives

IBank recommends no changes to this section.

Section 4.0 - Prudence

IBank recommends no changes to this section.

Section 5.0 - Delegation of Authority

Amendments are proposed to: (1) include additional language from Government Code Sections 63052(d), 63062, and 63048.96(d), which will clarify this section, (2) amend the IAC by removing the Chief Compliance Officer and the Fiscal Manager and adding the General Counsel as a de jure member of the IAC, and (3) remove the following language: "Executive Director (upon request), an external investment advisor may advise the IAC and the Executive Director regarding investment funds" Because it is duplicative of authority in the preceding paragraph.

Section 6.0 – Internal Controls

IBank recommends no changes to this section.

Section 7.0 - Ethics and Conflicts of Interest

IBank recommends no changes to this section.

Section 8.0 - Authorized Financial Institutions, Depositories and Broker/Dealers

Amendments are proposed to include additional language from Government Code Sections 63048.96(d), related to deposits of Climate Catalyst Revolving Fund moneys.

Section 9.0 – Safekeeping and Custody

IBank recommends no changes to this section.

Section 10.0 - Authorized Investments and Deposits-IBank Investment Funds in the State Treasury

Proposed increase to the investment cap on municipal bonds from 30 percent to 40 percent because the category provides higher quality investment yield according to FTI. Amendments are proposed to add language pertaining to the Small Business Expansion Fund in accordance with Government Code sections 63089.52(a) and (b) and pertaining to the Climate Catalyst Revolving Loan Fund, section 63048.96(d).

Section 11.0 - Authorized Investments and Deposits

IBank recommends no changes to this section.

Section 12.0 – Prohibited Investments

IBank recommends no changes to this section.

Section 13.0 - Maximum Maturities

Amendments are proposed to lengthen the permissible term remaining to maturity of eligible securities from five to seven years, add an average life measurement for permissible securities, and to clarify that permissible terms do not take into account the

security's settlement period based on recommendations from FTI to improve investment performance.

Section 14.0 – Credit Criteria

IBank recommends no changes to this section.

Section 15.0 – Performance

Amendments are proposed to delete Section 15.0 since it effectively duplicates earlier sections in the Investment Policy.

Section 16.0 – Reporting

Amendments are proposed to modify the Executive Director's required "monthly" deposit and investment transaction report submission to the IBank Board and change it to a quarterly report to the Board as discussed in the August 2021 Board meeting. Add language to identify various investment categories, such as: taxable bonds, tax-exempt bonds, et al.

Section 17.0 – Policy Adoption

IBank recommends no changes to this section.

Exhibit A: - Text of Government Code Section 16430

Amendments are proposed to include references shown official versions of Government Code Section. 16340

Exhibit B: - Government Code Section 63062(a) Permitted Investments

IBank recommends no changes to this section.

RECOMMENDATION:

Staff recommends the Board approve the 2021 Investment Policy, with changes as amended.

ATTACHMENT 1