

**PROFESSIONAL SERVICES AGREEMENT  
BETWEEN THE  
CITY OF MILPITAS AND CHANDLER ASSET MANAGEMENT**

This Agreement is made and entered into as of **December \_\_\_\_**, 2019 (“Effective Date”) by and between the City of Milpitas, a municipal corporation organized and operating under the laws of the State of California with its principal place of business at 455 E. Calaveras Boulevard, Milpitas, California 95035 (“City”), and **Chandler Asset Management**, a California Corporation with its principal place of business at **6225 Lusk Boulevard, San Diego, CA 92121** (hereinafter referred to as “Consultant”). City and Consultant are sometimes individually referred to as “Party” and collectively as “Parties” in this Agreement.

**RECITALS**

- A. City is a public agency of the State of California and is in need of professional services for the following project:

**INVESTMENT SERVICES**

(hereinafter referred to as “the Project”).

- B. Consultant is duly licensed and has the necessary qualifications to provide such services.
- C. The Parties desire by this Agreement to establish the terms for City to retain Consultant to provide the services described herein.

**AGREEMENT**

**NOW, THEREFORE, IT IS AGREED AS FOLLOWS:**

1. Services.

Consultant shall provide the City with the services described in the Scope of Services attached hereto as Exhibit A.

2. Compensation.

a. Subject to paragraph 2(b) below, the City shall pay for such services in accordance with the Schedule of Charges set forth in Exhibit B.

b. In no event shall the total amount paid for services rendered by Consultant under this Agreement exceed the sum of **Seven-Hundred Ninety Thousand Dollars and Zero Cents (\$790,000)**. This amount is to cover all printing and related costs, and the City will not pay any additional fees for printing expenses. Periodic payments shall be made within thirty (30) days of receipt of an invoice which includes a detailed description of the work performed. Payments to Consultant for work performed will be made on a monthly billing basis.

3. Additional Work.

If changes in the work seem merited by Consultant or the City, and informal consultations with the other party indicate that a change is warranted, it shall be processed in the following manner: a letter outlining the changes shall be forwarded to the City by Consultant with a statement of estimated changes in fee or time schedule. An amendment to this Agreement shall be prepared by the City and executed by both Parties before performance of such services, or the City will not be required to pay for the changes in the scope of work. Such amendment shall not render ineffective or invalidate unaffected portions of this Agreement.

4. Maintenance of Records.

Books, documents, papers, accounting records, and other evidence pertaining to costs incurred shall be maintained by Consultant and made available at all reasonable times during the Agreement term and for four (4) years from the date of final payment under the Agreement for inspection by City.

5. Term.

The term of this Agreement shall be from **January \_\_\_\_**, 2020 to **January \_\_\_\_**, 2025 unless earlier terminated as provided herein. The City reserves the right to review the Consultant's performance at the end of each year and cancel all or part of the Agreement.

6. Delays in Performance.

a. Neither City nor Consultant shall be considered in default of this Agreement for delays in performance caused by circumstances beyond the reasonable control of the non-performing party. For purposes of this Agreement, such circumstances include but are not limited to, abnormal weather conditions; floods; earthquakes; fire; epidemics; war; riots and other civil disturbances; strikes, lockouts, work slowdowns, and other labor disturbances; sabotage or judicial restraint.

b. Should such circumstances occur, the non-performing party shall, within a reasonable time of being prevented from performing, give written notice to the other party describing the circumstances preventing continued performance and the efforts being made to resume performance of this Agreement.

7. Compliance with Law.

a. Consultant shall comply with all applicable laws, ordinances, codes and regulations of the federal, state and local government, including Cal/OSHA requirements.

b. If required, Consultant shall assist the City, as requested, in obtaining and maintaining all permits required of Consultant by federal, state and local regulatory agencies.

c. If applicable, Consultant is responsible for all costs of clean up and/ or removal of hazardous and toxic substances spilled as a result of his or her services or operations performed under this Agreement.

8. Standard of Care

Consultant's services will be performed in accordance with generally accepted professional practices and principles and in a manner consistent with the level of care and skill ordinarily exercised by members of the profession currently practicing under similar conditions.

9. Assignment and Subconsultant

Consultant shall not assign, sublet, or transfer this Agreement or any rights under or interest in this Agreement without the written consent of the City, which may be withheld for any reason. Any attempt to so assign or so transfer without such consent shall be void and without legal effect and shall constitute grounds for termination. Subcontracts, if any, shall contain a provision making them subject to all provisions stipulated in this Agreement. Nothing contained herein shall prevent Consultant from employing independent associates, and subconsultants as Consultant may deem appropriate to assist in the performance of services hereunder.

10. Independent Consultant

Consultant is retained as an independent contractor and is not an employee of City. No employee or agent of Consultant shall become an employee of City. The work to be performed shall be in accordance with the work described in this Agreement, subject to such directions and amendments from City as herein provided.

11. Insurance. Consultant shall not commence work for the City until it has provided evidence satisfactory to the City it has secured all insurance required under Exhibit D (Insurance Requirements), attached hereto and incorporated herein by this reference. In addition, Consultant shall not allow any subcontractor to commence work on any subcontract until it has secured all insurance required therein.

12. Indemnification.

a. To the fullest extent permitted by law, Consultant shall defend (with counsel of City's choosing), indemnify and hold the City, its officials, officers, employees, volunteers, and agents free and harmless from any and all claims, demands, causes of action, costs, expenses, liability, loss, damage or injury of any kind, in law or equity, to property or persons, including wrongful death, in any manner arising out of, pertaining to, or incident to any acts, errors or omissions, or willful misconduct of Consultant, its officials, officers, employees, subcontractors, consultants or agents in connection with the performance of the Consultant's services, the Project or this Agreement, including without limitation the payment of all damages, expert witness fees and attorney's fees and other related costs and expenses. Consultant's obligation to indemnify shall not be restricted to insurance proceeds, if any, received by Consultant, the City, its officials, officers, employees, agents, or volunteers.

b. If Consultant's obligation to defend, indemnify, and/or hold harmless arises out of Consultant's performance of "design professional" services (as that term is defined under Civil Code section 2782.8), then, and only to the extent required by Civil Code section 2782.8, which is fully incorporated herein, Consultant's indemnification obligation shall be limited to claims that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of the Consultant, and, upon Consultant obtaining a final adjudication by a court of competent jurisdiction, Consultant's liability for such claim, including the cost to defend, shall not exceed the Consultant's proportionate percentage of fault.

13. California Labor Code Requirements.

a. Consultant is aware of the requirements of California Labor Code Sections 1720 et seq. and 1770 et seq., which require the payment of prevailing wage rates and the performance of other requirements on certain "public works" and "maintenance" projects ("Prevailing Wage Laws"). If the services are being performed as part of an applicable "public works" or "maintenance" project, as defined by the Prevailing Wage Laws, and if the total compensation is One Thousand Dollars and Zero Cents (\$1,000.00) or more, Consultant agrees to fully comply with such Prevailing Wage Laws. Consultant shall defend, indemnify and hold the City, its officials, officers, employees and agents free and harmless from any claims, liabilities, costs, penalties or interest arising out of any failure or alleged failure to comply with the Prevailing Wage Laws. It shall be mandatory upon the Consultant and all subconsultants to comply with all California Labor Code provisions, which include but are not limited to prevailing wages (Labor Code Sections 1771, 1774 and 1775), employment of apprentices (Labor Code Section 1777.5), certified payroll records (Labor Code Sections 1771.4 and 1776), hours of labor (Labor Code Sections 1813 and 1815) and debarment of contractors and subcontractors (Labor Code Section 1777.1). The requirement to submit certified payroll records directly to the Labor Commissioner under Labor Code section 1771.4 shall not apply to work performed on a public works project that is exempt pursuant to the small project exemption specified in Labor Code Section 1771.4.

b. If the services are being performed as part of an applicable "public works" or "maintenance" project, then pursuant to Labor Code Sections 1725.5 and 1771.1, the Consultant and all subconsultants performing such services must be registered with the Department of Industrial Relations. Consultant shall maintain registration for the duration of the Project and require the same of any subconsultants, as applicable. Notwithstanding the foregoing, the contractor registration requirements mandated by Labor Code Sections 1725.5 and 1771.1 shall not apply to work performed on a public works project that is exempt pursuant to the small project exemption specified in Labor Code Sections 1725.5 and 1771.1.

c. This Agreement may also be subject to compliance monitoring and enforcement by the Department of Industrial Relations. It shall be Consultant's sole responsibility to comply with all applicable registration and labor compliance requirements. Any stop orders issued by the Department of Industrial Relations against Consultant or any subcontractor that affect Consultant's performance of services, including any delay, shall be Consultant's sole responsibility. Any delay arising out of or resulting from such stop orders shall be considered Consultant caused delay and shall not be compensable by the City. Consultant shall defend, indemnify and hold the City, its officials, officers, employees and agents free and harmless from any claim or liability arising out of stop orders issued by the Department of Industrial Relations against Consultant or any subcontractor.

14. Verification of Employment Eligibility.

By executing this Agreement, Consultant verifies that it fully complies with all requirements and restrictions of state and federal law respecting the employment of undocumented aliens, including, but not limited to, the Immigration Reform and Control Act of 1986, as may be amended from time to time, and shall require all subconsultants and sub-subconsultants to comply with the same.

15. Laws and Venue.

This Agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of Santa Clara, State of California.

16. Termination or Abandonment

a. City has the right to terminate or abandon any portion or all of the work under this Agreement by giving ten (10) calendar days written notice to Consultant. In such event, City shall be immediately given title and possession to all original field notes, drawings and specifications, written reports and other documents produced or developed for that portion of the work completed and/or being abandoned. City shall pay Consultant the reasonable value of services rendered for any portion of the work completed prior to termination. If said termination occurs prior to completion of any task for the Project for which a payment request has not been received, the charge for services performed during such task shall be the reasonable value of such services, based on an amount mutually agreed to by City and Consultant of the portion of such task completed but not paid prior to said termination. City shall not be liable for any costs other than the charges or portions thereof which are specified herein. Consultant shall not be entitled to payment for unperformed services, and shall not be entitled to damages or compensation for termination of work.

b. Consultant may terminate its obligation to provide further services under this Agreement upon thirty (30) calendar days' written notice to City only in the event of substantial failure by City to perform in accordance with the terms of this Agreement through no fault of Consultant.

c. The Consultant understands and accepts that at all times; the Agreement is subject to appropriation of funds by the Milpitas City Council. The Agreement may terminate without penalty, liability or expense of any kind to the City at the end of Agreement term. The City has no obligation to make appropriations for the Agreement in lieu of appropriations for new or other contracts. City budget decisions are subject to the discretion of the Mayor and City Council. Consultant's assumption of risk of possible non-appropriation is a part of the consideration for the Agreement. This section controls against any and all other provisions of the Agreement.

17. Documents. Except as otherwise provided in "Termination or Abandonment," above, all original field notes, written reports, Drawings and Specifications and other documents, produced or developed for the Project shall, upon payment in full for the services described in this Agreement, be furnished to and become the property of the City.

18. Organization

Consultant shall assign **Carlos Oblites** as Project Manager. The Project Manager shall not be removed from the Project or reassigned without the prior written consent of the City.

19. Limitation of Agreement.

This Agreement is limited to and includes only the work included in the Project described above.

20. Notice

Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, return receipt requested, postage prepaid, addressed to:

CITY:

City of Milpitas

455 E. Calaveras Boulevard

Milpitas, California 95035

Attn: Walter C. Rossmann, Director  
of Finance/Risk Manager

CONSULTANT:

Chandler Asset Management

7250 Redwood Boulevard, Suite 300

Novato, California 94945

Attn: Carlos Oblites, SVP, Portfolio Strategist

and shall be effective upon receipt thereof.

21. Third Party Rights

Nothing in this Agreement shall be construed to give any rights or benefits to anyone other than the City and the Consultant.

22. Equal Opportunity Employment.

Consultant represents that it is an equal opportunity employer and that it shall not discriminate against any employee or applicant for employment because of race, religion, color, national origin, ancestry, sex, age or other interests protected by the State or Federal Constitutions. Such non-discrimination shall include, but not be limited to, all activities related to initial employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination.

23. Entire Agreement

This Agreement, with its exhibits, represents the entire understanding of City and Consultant as to those matters contained herein, and supersedes and cancels any prior or contemporaneous oral or written understanding, promises or representations with respect to those matters covered hereunder. Each party acknowledges that no representations, inducements, promises or agreements have been made by any person which are not incorporated herein, and that any other agreements shall be void. This Agreement may not be modified or altered except in writing signed by both Parties hereto. This is an integrated Agreement.

24. Severability

The unenforceability, invalidity or illegality of any provision(s) of this Agreement shall not render the provisions unenforceable, invalid or illegal.

25. Successors and Assigns

This Agreement shall be binding upon and shall inure to the benefit of the successors in interest, executors, administrators and assigns of each party to this Agreement. However, Consultant shall not assign or transfer by operation of law or otherwise any or all of its rights, burdens, duties or obligations without the prior written consent of City. Any attempted assignment without such consent shall be invalid and void.

26. Non-Waiver

None of the provisions of this Agreement shall be considered waived by either party, unless such waiver is specifically specified in writing.

27. Time of Essence

Time is of the essence for each and every provision of this Agreement.

28. City's Right to Employ Other Consultants

City reserves its right to employ other consultants, including engineers, in connection with this Project or other projects.

29. Prohibited Interests

Consultant maintains and warrants that it has not employed nor retained any company or person, other than a bona fide employee working solely for Consultant, to solicit or secure this Agreement. Further, Consultant warrants that it has not paid nor has it agreed to pay any company or person, other than a bona fide employee working solely for Consultant, any fee, commission, percentage, brokerage fee, gift or other consideration contingent upon or resulting from the award or making of this Agreement. For breach or violation of this warranty, City shall have the right to rescind this Agreement without liability. For the term of this Agreement, no director, official, officer or employee of City, during the term of his or her service with City, shall have any direct interest in this Agreement, or obtain any present or anticipated material benefit arising therefrom.

30. Wage Theft Prevention

a. Consultant, and any subconsultant it employs to complete work under this Agreement, shall comply with all applicable federal, state and local wage and hour laws. Applicable laws may include, but are not limited to, the Federal Fair Labor Standards Act, the California Labor Code and the Milpitas Minimum Wage Ordinance.

b. BY SIGNING THIS AGREEMENT, CONSULTANT AFFIRMS THAT IT HAS DISCLOSED ANY FINAL JUDGMENTS, DECISIONS OR ORDERS FROM A COURT OR INVESTIGATORY GOVERNMENT AGENCY, FINDING IN THE FIVE (5) YEARS PRIOR TO EXECUTING THIS AGREEMENT THAT CONSULTANT OR ITS SUBCONSULTANTS HAS VIOLATED ANY APPLICABLE WAGE AND HOUR LAWS. CONSULTANT FURTHER AFFIRMS THAT IT OR ITS SUBCONSULTANT(S) HAS EITHER FULLY SATISFIED EACH JUDGMENT, DECISION OR ORDER, OR, IF ANY JUDGMENT, DECISION OR ORDER HAS NOT BEEN FULLY SATISFIED, CONSULTANT AFFIRMS THAT IT OR ITS SUBCONSULTANT(S) IS CURRENTLY SATISFYING SAID JUDGMENT, DECISION OR ORDER THROUGH A PAYMENT OR ALTERNATIVE PLAN APPROVED BY THE APPLICABLE COURT/GOVERNMENT AGENCY AND THAT CONSULTANT OR ITS SUBCONSULTANT(S) ARE IN COMPLIANCE WITH SAID PLAN AS OF THE DATE OF EXECUTING THIS AGREEMENT.

c. If at any time during the term of this Agreement, a court or investigatory government agency issues a final judgment, decision or order finding that Consultant or a subconsultant it employs to perform work under this Agreement has violated any applicable wage and hour law, or Consultant learns of such a judgment, decision, or order that was not previously disclosed in its bid/proposal, Consultant shall inform the City no more than fifteen (15) calendar days after the judgment, decision or order becomes final or from the date of learning of the final judgment, decision or order. Consultant or its subconsultant(s) shall, within thirty (30) calendar days after notifying the City, either (i) fully satisfy any such judgment, decision, or order and provide the City with documentary evidence of satisfying said judgment, decision or order; or (ii) provide the City documentary evidence of a payment or other alternative plan approved by the court/government agency to satisfy the judgment, decision or order. If the Consultant or its subconsultant is subject to a payment or other alternative plan, the Consultant or its subconsultant shall continue to submit documentary evidence every thirty (30) calendar days during the term of the Agreement demonstrating continued compliance with the plan until the judgment, decision or order has been fully satisfied.

d. For purposes of this Section, a "final judgment, decision, or order" refers to one for which all appeals have been exhausted or the time period to appeal has expired. Relevant investigatory government agencies include: the United States Department of Labor, the California Division of Labor Standards Enforcement, the City, or any other governmental entity or division tasked with the investigation and enforcement of wage and hour laws.

e. Failure to comply with any part of this Section constitutes a material breach of this Agreement. Such breach may serve as a basis for immediate termination of this Agreement and/or any other remedies available under this Agreement and/or law.

f. Notice provided to the City shall be addressed to: Attention: Finance Director, 455 E. Calaveras Blvd. Milpitas, CA 95035. The Notice provisions of this Section are separate from any other notice provisions in this Agreement and, accordingly, only notice provided to the above address satisfies the notice requirements in this Section.

**[SIGNATURES ON FOLLOWING PAGE]**

**SIGNATURE PAGE FOR PROFESSIONAL SERVICES AGREEMENT  
BETWEEN THE CITY OF MILPITAS  
AND CHANDLER ASSET MANAGEMENT**

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

**CITY OF MILPITAS**

*Approved By:*

\_\_\_\_\_  
Steven G. McHarris, Interim City Manager

\_\_\_\_\_  
Date

*Approved As To Form:*

\_\_\_\_\_  
Christopher J. Diaz, City Attorney

*Approved:*

\_\_\_\_\_  
Walter C. Rossmann, Director of Finance/  
Risk Manager

**CHANDLER ASSET MANAGEMENT**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
DIR Registration Number (If Applicable)



## EXHIBIT A

### Scope of Services

#### PROJECT OVERVIEW

The City of Milpitas currently internally manages the investment of its pooled portfolio, which as of June 30, 2019 totaled approximately \$332 million. Of this amount, approximately \$89 million was invested with the State's Local Agency Investment Fund (LAIF) to meet the City's liquidity needs. The City currently has three approved brokers from which investments are made. Portfolio evaluation and reporting are currently performed using Sympro software.

The City's current Investment Policy is reviewed and adopted annually typically at the first Council meeting of a fiscal year to ensure consistency with the overall objectives of safety, liquidity, and yield and its relevance to current law and financial and economic trends. An investment report is filed and submitted to the City Council quarterly.

Consultant will provide investment management services for the City's pooled portfolio in accordance with the City's Investment Policy, as may be amended from time to time, as further set forth below.

#### SCOPE OF SERVICES

Consultant understands and is uniquely qualified to meet and/or exceed all the expectations that the City has for its investment management, advisory, and service needs, and is committed to management of the City's portfolio as a separate managed account.

• **Investment Management Services.** Consultant will provide full-time investment management services for the City pursuant to the prudent expert standard of care required as a fiduciary. Consultant will develop City-specific objectives and constraints for each portfolio through a collaborative process with City staff. Consultant will work with the City's Director of Finance to evaluate and monitor investments in the portfolio within the scope of a comprehensive strategy to ensure safety, meet liquidity needs, and enhance return.

Consultant manages portfolios that are comprised of asset classes in the U.S. fixed income universe that align with the City's objectives of *safety*, *liquidity* and *return*. In California, these are assets that are permitted by California Government Code 53601 and 53635. The composition of Consultant's portfolios includes high quality, short-term investment-grade, U.S. dollar denominated securities including but not limited to:

- a. U.S. Treasuries,
- b. Federal agency enterprise obligations,
- c. municipal bonds,
- d. negotiable CDs,
- e. corporate notes,
- f. supranational securities,
- g. asset-backed securities,
- h. mortgage-backed securities, and
- i. commercial paper.

• **Investment Policy Review.** Consultant will conduct an extensive review of the City's Investment Policy, as well as consult with the City to understand and quantify investment objectives, risk profile, and expected outcomes. Once the investment policy is approved, it becomes the operating guideline for the portfolio. In addition, the Consultant will perform a formal review of the City's investment policy annually to ensure that it is updated to reflect the latest changes to California Government Code, as well as incorporate the City's objectives and cash flow needs that may change over time. Recommendations are meant to incorporate best practices that provide clarification, increase return potential, and improve risk management.

- **Cash Flow and Maturity Analysis.** The Consultant utilizes proprietary methods to conduct cash flow analysis and forecast cash requirements as an initial step and on an ongoing basis to effectively structure a portfolio that both ensures liquidity and provides the City with opportunities for enhanced returns. Consultant will communicate with the City about current and expected needs in order to maintain cash flow forecasts to manage liquidity, and structure securities in the portfolio to mature on known cash flow dates. Consultant will also identify funds available for longer-term investment in the City’s total return investment strategy to take advantage of the yield-curve and the potential for higher returns.

- **Socially Responsible Investments.** Consultant incorporates ESG factors into their fundamental credit research process, as these factors influence the underlying credit quality and longer-term outlook of a corporation. Integrating ESG factors in the credit analysis process is consistent with the underlying tenets of California Government Code – safety, liquidity, and return. While ESG issues evolve over time, Consultant’s Credit Committee is charged with ensuring the current and evolving factors are consistent with the current relative value of a given security compared to its peer group. For the City, the Consultant will not purchase securities of companies that receive more than 50% of their revenue from the sale or manufacture of tobacco, alcohol, or firearms.

From a Socially Responsible Investment (“SRI”) perspective, Consultant works closely with clients to identify the SRI issues they are looking to address on a case-by-case basis. Global Industry Classification Standards (GICS) and the Calvert Social Index are often utilized to create an SRI program that can be accurately tracked within the Consultant’s automated compliance system. Consultant also has the ability to exclude specific securities and issuers as part of an SRI program.

- **Best Execution, Settlement, and Documentation.** Consultant executes securities transactions on a transparent and highly competitive basis, in accordance with their commitment to best execution. As part of this process, the Consultant will seek a broad range of security broker-dealers that provide a high level of market liquidity and product inventory. Consultant will strive to find the best execution for each transaction, seeking multiple price quotations on all purchases and sales, a process which adds to the incremental net economic benefit and value added over time. Trade tickets documenting the Consultants process will be made available to City the same day that trades occur. The Consultants competitive bid process results in an incremental net financial advantage for the City over time.

- **Reconciliation and Settlement.** Consultant invests in best-in-class tools and technology to support the portfolio management process and simplify investment reporting and compliance. Consultant’s operations team performs daily reconciliations of cash balances and positions in all accounts. This is completed by comparing each account’s cash and security positions in Consultants PAM for Securities accounting system to the relative holdings maintained and provided by the City’s custodian bank. Consultant will work with a number of third-party custodians, including the City’s current provider, Bank of New York Mellon.

Consultant will assist the City in reviewing custodial and safekeeping arrangements. The Consultants Relationship Manager will review the City’s current custodial arrangement, including contractual arrangement, services provided, the City’s satisfaction with the services and their cost. Consultant will make recommendations for revisions in the City’s existing relationship and assist in selecting a new custodian that best facilitates the City’s needs.

- **Establish an appropriate performance benchmark.** Along with an overarching investment strategy designed to meet the City’s risk tolerance and return expectations, Consultant will identify an appropriate benchmark to measure portfolio outcomes. The benchmark should reflect the actual securities being purchased and the risks undertaken and should have a similar weighted average maturity and credit profile as the portfolio. The benchmark should also be the basis for discussion about factors contributing to incremental outperformance of the portfolio relative to the benchmark. Consultant will undergo a collaborative process with the City’s finance staff to select appropriate benchmarks for each of its portfolios.

- **Portfolio Accounting and Reporting.** Consultant will provide monthly reports that include a management summary of portfolio characteristics, performance and full accounting details. Reports may be structured to include the City’s investment accounts as well as its liquid funds in LAIF and cash vehicles. Consultant’s consolidation of the City’s accounts offers both a “broken-out” as well as an aggregated view of the City’s entire investment program for increased transparency and operational efficiency. This provides a rolled up or complete view of the City’s investment program. Reports as well as holdings, trade tickets, and historical data is available to the City via Consultant’s online reporting tool, the *Chandler Client Portal*. Monthly reports will be available no later than the third business day following month-end. The City will also receive

a quarterly report in a format designed to facilitate discussion between the Consultants designated engagement team and City staff.

Reports will be prepared in accordance with state law and the Governmental Accounting Standards Board (GASB) and will be compiled to meet the City's specific needs. Performance for your portfolio will be calculated and reported in compliance with the CFA Institute's Global Investment Performance Standards (GIPS®).

• **Attend meetings with City Staff and Council.** As an investment manager headquartered in California, Consultant will provide timely communication and practice excellent service delivery to the City in all of its contact with City staff. Carlos Oblites (located in the Bay Area), Christopher McCarry and other contacts from the designated team for the City will meet with the City at least quarterly to present the investment portfolio to the City's finance staff. Consultant understands that during any transition and initial period that follows, communication will be frequent in nature and will assist both teams to establish objectives, communication requirements and milestones for the engagement. After this initial period, the team assigned to the City maintains the flexibility to continue to meet as often as the City prefers and will also attend any ad hoc or special meetings and present on fixed income topics throughout the year. Consultant invites the City's staff to their headquarters for periodic meetings, trainings or for the purpose of conducting due diligence.

The Consultant is committed to keeping the City fully informed of local issues, investment strategies, market conditions and developments that are relevant to its investment program and that could potentially impact the City from a risk, opportunity, operational and statutory perspective. Consultant will meet with the City as frequently as they prefer, and the Consultants investment professionals will also be available by phone during business hours.

In addition, the Consultant will communicate regularly via email to the City with updates which include:

1. Weekly economic updates that provide a concise summary of economic and market news of the current week, key economic indicators, as well as topics for the next weeks' economic data releases. The update will be sent via email to City staff and interested parties each Friday;
2. Monthly newsletter that includes a market summary, treasury yield curve graph and monthly percent changes, as well as economic data and statistics; and
3. Ad hoc emails and communication such as Fed rate news, education pieces, white papers, technology and product updates.

• **Serve as a General Resource to the City's staff.** Consultant professionals serve as faculty and committee members for the Government Finance Officers Association (GFOA) and are active participants and sponsors of other national and regional associations that develop recommended best practices and training curricula for public agencies including:

1. the California Society of Municipal Finance Officers (CSMFO),
2. the California Municipal Treasurers Association (CMTA),
3. the California Debt and Investment Advisory Commission (CDIAC),
4. and the CFA Institute.

Consultant is a registered sponsor on the National Registry of CPE Sponsors, affirming its commitment to the delivery of high quality continuing professional education. The Consultant has developed educational materials on a wide range of investment topics, including:

1. risk,
2. duration,
3. benchmarking
4. and total return,
5. corporate credit analysis,
6. accounting and others.

Consultant will provide educational presentations based on best practices of public financial management. Learning opportunities can be scheduled in conjunction with regular portfolio reviews, or at other times more convenient for City staff.

• **Evaluate market risk and develop strategies that minimize the impact on the portfolio.** Consultants focus on managing downside risk is equally as important as the focus on an investment's upside potential and proves especially valuable for protecting the City's principal in a rising interest rate environment. The Consultants strategies add value in a framework of risk management throughout the investment process including the establishment of:

1. specific client objectives,
2. purchasing individual securities,
3. and the reinvestment of maturing bonds.

The Consultant will reduce exposure to market risk by diversifying the portfolio by issuer and security type and by establishing and maintaining a target portfolio duration that is consistent with the City's risk profile and investment objectives.

• **Provide assurance of portfolio compliance with applicable policies and laws.** Consultant utilizes Bloomberg AIM, a robust order management and portfolio compliance system to monitor and automate compliance review and report on compliance of the City's investments. Under Consultant's management engagement, the City will derive additional benefits through operational efficiencies and time-saving practices, the Consultant will use Bloomberg AIM as the single platform from trade origination through compliance review. Compliance will be monitored in the City's portfolio daily and reported formally in the monthly report.

• **Broker-Dealer Due Diligence.** The Consultants Investment Management Team will maintain an active, productive relationship with the broker-dealer community in order to promote an ongoing flow of market information and to execute trades for the City at competitive prices. Currently, there are approximately 45 broker-dealers on the Consultant's Approved List. The Consultant will consistently place several dealers in competition and continuously monitor and compare inventories and prices. The Consultant reviews the credentials and regulatory background of each broker-dealer firm and their employees with whom they trade using FINRA's online BrokerCheck System.

• **Additional Terms Agreement.** The **Additional Terms Specific to Investment Management Relationship**, Exhibit E, is incorporated into this agreement.

**EXHIBIT B**

**Schedule of Charges/Payments**

Consultant will invoice City on a monthly cycle. Consultant will include with each invoice a detailed progress report that indicates the amount of budget spent on each task. Consultant will inform City regarding any out-of-scope work being performed by Consultant. This is a time-and-materials Agreement.

**PROPOSED COMPENSATION**

1. There are no separate or one-time fees associated with the investment management and advisory services provided. Consultants proposed fee schedule is all-inclusive for the services to be provided, including:
  - a. full time investment management,
  - b. technological resources,
  - c. onboarding and implementation,
  - d. online access to the Chandler Client Portal,
  - e. comprehensive reporting, meetings, personal visits,
  - f. and educational offerings for City staff,
  - g. as well as the treasury management support services described in the scope of services.

Consultants fee schedule does not include charges that the City would incur for third party custodial services. Consultant does not charge fees on funds held in vehicles not directly under their management, including Local Government Investment Pools and internally managed liquid funds; however, Consultant is able to consolidate these funds in City reports.

2. The fee proposal based on Average Assets Under Management by tiers with a breakdown of fees will be:

**Proposed Fee Schedule for City of Milpitas**

<b>Assets Under Management</b>	<b>Annual Asset Management Fee</b>
First \$50 million	0.08 of 1% (8 basis points)
Next \$75 million	0.06 of 1% (6 basis points)
Next \$125 million	0.04 of 1% (4 basis points)
Assets over \$250 million	0.03 of 1% (3 basis points)

The Consultant calculates fees based on the average balance of assets under their direct management (market value including accrued interest), they will fluctuate based on portfolio value. Fees are charged monthly in arrears and can be debited directly from the City’s third-party custody account. Pricing is firm for the entire five-year term of the agreement, and the City will not be subject to any increases during this period.

3. There are no expense ratios of funds/portfolios.
4. There are no fees related to the transfer of assets and restrictions or costs related to termination of this contract.

<b>Contract Year</b>	<b>Assets Under Management</b>	<b>Estimated Annual Contract Amount</b>
Year 1	\$ 300 million	\$150,000

Year 2	\$ 313 million	\$154,000
Year 3	\$ 326 million	\$158,000
Year 4	\$ 340 million	\$162,000
Year 5	\$ 354 million	\$166,000
<b>Total Five-Year Contract Amount</b>		<b>\$790,000</b>

## EXHIBIT "D"

### INSURANCE REQUIREMENTS

Please refer to the insurance requirements listed below. **Those that have an "X" indicated in the space before the requirement apply to Contractor's or Consultant's Agreement.**

Contractor or Consultant shall procure and maintain for the duration of the Agreement insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder and the results of that work by the Contractor or Consultant, its agents, representatives, employees or subcontractors.

Contractor or Consultant shall provide its insurance broker(s)/agent(s) with a copy of these requirements and request that they provide Certificates of Insurance complete with copies of all required endorsements.

Contractor or Consultant shall furnish City with copies of original endorsements affecting coverage required by this Exhibit D. The endorsements are to be signed by a person authorized by that insurer to bind coverage on its behalf. All endorsements and certificates are to be received and approved by City before work commences. City has the right to require Contractor's or Consultant's insurer to provide complete, certified copies of all required insurance policies, including endorsements affecting the coverage required by these specifications.

#### **Commercial General Liability (CGL):**

Coverage at least as broad as Insurance Services Office ("ISO") Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal and advertising injury with limits no less than \$2,000,000.00 per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

Coverage at least as broad as ISO Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal and advertising injury with limits no less than \$1,000,000.00 per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

Coverage at least as broad as ISO Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal and advertising injury with limits no less than \$5,000,000.00 per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

#### **Automobile Liability:**

Coverage at least as broad as ISO Form Number CA 0001 covering, Code 1 (any auto), of if Contractor or Consultant has no owned autos, Code 8 (hired) and 9 (non-owned), with limits no less than \$1,000,000.00 combined single limit for bodily injury and property damage.

Coverage at least as broad as ISO Form Number CA 0001 covering, Code 1 (any auto), with limits no less than \$5,000,000.00 combined single limit for bodily injury and property damage.

\_\_\_ Garage keepers' extra liability endorsement to extend coverage to all vehicles in the care, custody and control of the Contractor or Consultant, regardless of where the vehicles are kept or driven.

**Professional Liability (Errors and Omissions):**

X Insurance appropriate to the Contractor or Consultant's profession, with limit no less than \$1,000,000.00 per occurrence or claim, \$2,000,000.00 aggregate.

\_\_\_ (If Design/Build), with limits no less than \$1,000,000.00 per occurrence or claim, and \$2,000,000.00 policy aggregate.

\_\_\_ Insurance appropriate to the Contractor or Consultant's profession, with limit no less than \_\_\_\_\_ per occurrence or claim, \_\_\_\_\_ aggregate

**Workers' Compensation Insurance:**

X Insurance as required by the State of California, with Statutory Limits, and Employer's Liability Insurance with limit of no less than \$1,000,000.00 per accident for bodily injury or disease. *(Not required if Contractor or Consultant provides written verification it has no employees)*

The Employer's Liability policy shall be endorsed to waive any right of subrogation as respects the City, its elected and appointed officials, officers, attorneys, agents, and employees.

**Contractor's or Consultant's Pollution Legal Liability:**

\_\_\_ Contractor's or Consultant's pollution legal liability and/or Asbestos Legal Liability and/or Errors and Omissions (if project involves environmental hazards) with limits no less than \$1,000,000.00 per occurrence or claim and \$2,000,000.00 policy aggregate.

If the Contractor or Consultant maintains higher limits than the minimums shown above, the City requires and shall be entitled to coverage for the higher limits maintained by the Contractor or Consultant. Any available insurance proceeds in excess of the specified minimum limits of insurance and coverage shall be available to City.

**Cyber Liability Insurance**

\_\_\_ Cyber Liability Insurance with limits not less than \$1,000,000 per claim.

Coverage shall be sufficiently broad to respond to the duties and obligations as is undertaken by Contractor or Consultant in this Agreement and shall include, but not be limited to, claims involving infringement of intellectual property, including but not limited to infringement of copyright, trademark, trade dress, invasion of privacy violations, information theft, damage to or destruction of electronic information, release of private information, alteration of electronic information, extortion, and network security.

The policy shall provide coverage for breach response costs as well as regulatory fines and penalties, and credit monitoring expenses with limits sufficient to respond to these obligations.

**Surety Bonds:**



Contractor shall provide the following Surety Bonds:

- Bid Bond
- Performance Bond
- Payment Bond

The Payment Bond and Performance Bond shall be in a sum equal to the contract price. Bonds shall be duly executed by a responsible corporate surety, authorized to issue such bonds in the State of California and secured through an authorized agent with an office in California.

**Other Insurance Provisions:**

The insurance policies are to contain, or be endorsed to contain the following provisions:

**X Additional Insured Status and Primary/Non-Contributory Language:**

Contractor's general liability and automobile liability policies shall be primary and shall not seek contribution from the City's coverage and be endorsed to add the City and its officers, officials, employees, and agents as additional insureds under such policies using Insurance Services Office form CG 20 10 (or equivalent) on the general liability policy. For construction projects, an endorsement providing completed operations coverage for the additional insured on the general liability policy, ISO form CG 20 37 (or equivalent), is also required.

The limits of insurance required in this Agreement may be satisfied by a combination of primary and umbrella or excess insurance. Any umbrella or excess insurance shall contain or be endorsed to contain a provision that such coverage shall also apply on a primary and non-contributory basis for the benefit of City (if agreed to in a written contract or agreement) before the City's own insurance or self-insurance shall be called upon to protect it as a named insured.

**Loss Payee Status – Builder's Risk/Course of Construction Insurance (applicable to Construction Contracts only)**

Contractor or Consultant may submit evidence of Builder's Risk insurance in the form of Course of Construction coverage. Such coverage shall name the City as a loss payee as their interest may appear.

**X Notice of Cancellation, Suspension or Otherwise Voiding Policies:**

Each insurance policy required above shall contain or be endorsed to contain that coverage shall not be suspended, voided, canceled or reduced in coverage or in limits except with thirty (30) days' prior written notice by certified mail, return receipt requested to the City.

**X Waiver of Subrogation:**

Contractor or Consultant hereby grants to City a waiver of any right to subrogation which any insurer of said Contractor or Consultant may acquire against the City by virtue of the payment of any loss under such insurance. Contractor or Consultant agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision applies regardless of whether or not the City has received a waiver of subrogation endorsement from the insurer. The Workers' Compensation Policy shall be endorsed with a waiver of subrogation in favor of the City for all work performed by Contractor or Consultant, its employees, agents and subcontractors.

**Completed Operations**

For Construction Agreements, Contractor shall maintain insurance as required by this Agreement to the fullest amount allowed by law and shall maintain insurance for a minimum of five (5) years following the completion of this project. In the event Contractor fails to obtain or maintain completed operations coverage as required by this Agreement, the City at its sole discretion may purchase the coverage required and the cost will be paid by Contractor.

THE FOLLOWING PROVISIONS APPLY TO ALL AGREEMENTS

**Deductibles and Self-Insured Retentions (“SIR”):**

Any deductibles or self-insured retentions must be declared to and approved by City. The City may require the Contractor or Consultant to purchase coverage with a lower deductible or retention or provide proof of ability to pay losses and related investigations, claim administration, and defense expenses within the retention. At the option of the City, either (1) the insurer shall reduce or eliminate such deductibles or self-insured retentions as respects the City, its elected and appointed officials, officers, attorneys, agents, and employees; or (2) the Contractor or Consultant shall procure a bond guaranteeing payment of losses and related investigations, claim administration and defense expenses.

All SIRs must be disclosed to Risk Management for approval and shall not reduce the limits of liability.

Policies containing any SIR provision shall provide or be endorsed to provide that the SIR may be satisfied by either the named insured or the City.

City reserves the right to obtain a full-certified copy of any insurance policy and endorsements. Failure to exercise this right shall not constitute a waiver of right to exercise later.

**Acceptability of Insurers:**

Insurance is to be placed with insurers with a current A.M. Best’s rating of no less than A-:VII, unless otherwise acceptable to City.

**Claims Made Policies: (note - should be applicable only to professional liability, see below)**

1. The Retroactive Date must be shown and must be before the date of the contract or the beginning of contract work.
2. Insurance must be maintained, and evidence of insurance must be provided for at least five (5) years after completion of contract of work.
3. If coverage is canceled or non-renewed, and not replaced with another claims-made policy form with a Retroactive Date prior to the contract effective date, the Contractor or Consultant must purchase “extended reporting” coverage for a minimum of five (5) years after completion of work.
4. A copy of the claims reporting requirements must be submitted to the City for review.
5. If the services involve lead-based paint or asbestos identification/remediation, the Contractor’s Pollution Liability Policy shall not contain lead-based paint or asbestos exclusions. If the services involve mold identification/remediation, the Contractors Pollution Liability Policy shall not

contain a mold exclusion, and the definition of Pollution shall include microbial matter, including mold.

**Subcontractors:**

Contractor or Consultant shall require and verify that all subcontractors maintain insurance meeting all the requirements stated herein, and Contractor shall ensure that City is an additional insured on insurance required from subcontractors.

Subcontractor agrees to be bound to Contractor and City in the same manner and to the same extent as Contractor is bound to City under this Agreement and any other contract documents. Subcontractor further agrees to include the same requirements and provisions of this Agreement, including the indemnity and insurance requirements, with any sub-subcontractor to the extent they apply to the scope of the sub-subcontractor's work. A copy of the City indemnity and insurance provisions will be furnished to the subcontractor upon request.

**Verification of Coverage:**

Contractor or Consultant shall furnish the City with original certificates and amendatory endorsements or copies of the applicable policy language effecting coverage required by this clause. All certificates and endorsements are to be received and approved by the City before work commences. However, failure to obtain the required documents prior to the work beginning shall not waive the Contractor or Consultant's obligation to provide them. The City reserves the right to require complete, certified copies of all required insurance policies, including endorsements required by these specifications, at any time.

**Special Risks or Circumstances**

City reserves the right to modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage or other special circumstances.

**Failure to Comply:**

Each insurance policy required above shall contain or be endorsed to contain that any failure to comply with reporting provisions of the policies shall not affect coverage provided to the City, its elected and appointed officials, officers, attorneys, agents, and employees.

**Applicability of Coverage:**

Each insurance policy required above shall contain or be endorsed to contain that the Contractor's or Consultant's insurance shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability.

## EXHIBIT E

### Additional Terms Specific to Investment Management Relationship

1. Client Representative. In its capacity as investment manager, Chandler shall receive all instructions, directions and other communications on Client's behalf respecting Client's account from \_\_\_\_\_ (Representative). Chandler is hereby authorized to rely and act upon all such instructions, directions and communications from such Representative or any agent of such Representative.
2. Investment Policy. In investing and reinvesting Client's assets, Chandler shall comply with Client's Investment Policy, which is attached hereto as Exhibit F.
3. Authority of Chandler. Chandler is hereby granted full discretion to invest and reinvest all assets under its management in any type of security it deems appropriate, subject to the instructions given or guidelines set by Representative.
4. Electronic Delivery. From time to time, Chandler may be required to deliver certain documents to Client such as account information, notices and required disclosures. Client hereby consents to Chandler's use of electronic means, such as email, to make such delivery. This delivery may include notification of the availability of such document(s) on a website, and Client agrees that such notification will constitute "delivery". Client further agrees to provide Chandler with Client's email address(s) and to keep this information current at all times by promptly notifying Chandler of any change in email address(s).

Client email address(s): \_\_\_\_\_

5. Proxy Voting. Chandler will vote proxies on behalf of Client unless otherwise instructed. Chandler has adopted and implemented written policies and procedures and will provide Client with a description of the proxy voting procedures upon request. Chandler will provide information regarding how Clients' proxies were voted upon request. To request proxy policies or other information, please contact us by mail at the address provided, by calling 800-317-4747 or by emailing your request to info@chandlerasset.com.
6. Custody of Securities and Funds. Chandler shall not have custody or possession of the funds or securities that Client has placed under its management. Client shall appoint a custodian to take and have possession of its assets. Client recognizes the importance of comparing statements received from the appointed custodian to statements received from Chandler. Client recognizes that the fees expressed above do not include fees Client will incur for custodial services.
7. Valuation. Chandler will value securities held in portfolios managed by Chandler no less than monthly. Securities or investments in the portfolio will be valued in a manner determined in good faith by Chandler to reflect fair market value.
8. Investment Advice. Client recognizes that the opinions, recommendations and actions of Chandler will be based on information deemed by it to be reliable, but not guaranteed to or by it. Provided that Chandler acts in good faith, Client agrees that Chandler will not in any way be liable for any error in judgment or for any act or omission, except as may otherwise be provided for under the Federal Securities laws or other applicable laws.
9. Payment of Commissions. Chandler may place buy and sell orders with or through such brokers or dealers as it may select. It is the policy and practice of Chandler to strive for the best price and execution and for

commission and discounts which are competitive in relation to the value of the transaction and which comply with Section 28(e) of the Securities and Exchange Act. Nevertheless, it is understood that Chandler may pay a commission on transactions in excess of the amount another broker or dealer may charge, and that Chandler makes no warranty or representation regarding commissions paid on transactions hereunder.

10. Other Clients. It is further understood that Chandler may be acting in a similar capacity for other institutional and individual clients, and that investments and reinvestments for Client's portfolio may differ from those made or recommended with respect to other accounts and clients even though the investment objectives may be the same or similar. Accordingly, it is agreed that Chandler will have no obligation to purchase or sell for Client's account any securities which it may purchase or sell for other clients.
11. Confidential Relationship. All information and advice furnished by either party to the other shall be treated as confidential and shall not be disclosed to third parties except (i) as required by law, rule, or regulation, (ii) as requested by a regulatory authority, (iii) for disclosures by either party of information that has become public by means other than wrongful conduct by such party or its officers, employees, or other personnel, (iv) for disclosures by either party to its legal counsel, accountants, or other professional advisers, (v) as necessary for Chandler to carry out its responsibilities hereunder, or (vi) as otherwise expressly agreed by the parties.
12. Receipt of Brochure and Privacy Policy. Client hereby acknowledges receipt of the disclosure statement or "brochure" and "brochure supplement" also known as Part 2A and Part 2B of Form ADV, required to be delivered pursuant to Rule 204-3 of the Investment Advisers Act of 1940 (Brochure). Client further acknowledges receipt of Chandler's Privacy Policy, as required by Regulation S-P.

## EXHIBIT F

### City of Milpitas Investment Policy Effective July 1, 2019

#### **PURPOSE**

The purpose of this policy is to establish overall guidelines for the management and investment of the City of Milpitas (the City) unexpended funds under authority granted by the City Council. This policy is in compliance with the provisions of the California Government Code, Sections 16340, 16429.1-16429.4, and 53600-53686, the authority governing investments for municipal governments.

#### **INVESTMENT OBJECTIVES**

The primary objectives of this investment policy, 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. This objective shall be accomplished by mitigating credit risk and market risk.
- 2) **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This objective shall be accomplished by structuring the portfolio so that securities mature concurrently with anticipated needs. The portfolio shall consist largely of securities with active secondary or resale market. Furthermore, a portion of the portfolio may be placed in money market funds or Local Agency Investment Fund (LAIF) which offer same day liquidity for short term investment.
- 3) **Yield** - The investment portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration 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 risk being assumed. Nevertheless, investment performance shall be continually monitored and evaluated by the City Treasurer by comparison with other investment portfolio benchmark yields.

Additionally, investments are to be made that will bear in mind the responsibility of City government to its citizens. The following investment considerations, which enhance the quality of life, will be adhered to:

- **Divestment From Publicly-Traded Fossil Fuel Companies** - The City of Milpitas has a responsibility to protect the lives and livelihoods of its inhabitants from the threat of climate change. The City believes that its investments should support a future where all citizens can live healthy lives without the negative impacts of a warming environment. For the purposes of the Investment Policy, a "fossil fuel company" shall be defined as any of the two hundred publicly-traded companies with the largest coal, oil and gas reserves as measured by the gigatons of carbon dioxide that would be emitted if those reserves were extracted and burned, as listed in the Carbon Tracker Initiative's "Unburnable Carbon" report. Staff responsible for managing the City's investment portfolio are directed to divest all City investment funds held in fossil fuel companies once they reach their maturities and are prohibited from making any new investments in such companies.

#### **SCOPE**

The investment policy applies to all financial assets of the City of Milpitas as accounted for in the Comprehensive Annual Financial Report (CAFR), including but not limited to the funds listed below:

- General Fund
- Special Revenue Funds

- Capital Projects Funds
- Debt Service Fund
- Enterprise Funds
- Internal Service Fund
- Trust and Agency Funds
- Any new fund created by the City Council unless specifically exempted with the exception of the following:
  - 1) The City's Deferred Compensation Plan is excluded because it is managed by a third-party administrator and invested by individual plan participants.
  - 2) Proceeds of debt issuance shall be invested in accordance with the investment objectives of this policy. However, such proceeds are generally invested in accordance with permitted investment provisions of their specific bond indentures. If the City Treasurer determines that the matching of bond reserve fund with the maturity schedule of an individual bond issue is prudent, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

## **STANDARDS OF CARE**

- 1) **Prudence** - The City investment officials shall act as a fiduciary subject to the Prudent Investor Standard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.
- 2) **Ethics and Conflict of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or could impair their ability to make impartial investment decisions. City employees involved in the investment process shall disclose to the City Manager any material financial interest in financial institutions that conduct business within the jurisdiction. They shall further disclose any large personal financial/investment positions that could affect the performance of the investment portfolio.
- 3) **Delegation of Authority** - Authority to manage the investment program is granted to the City Treasurer and derived from Section VI-1-3.04 of the City of Milpitas Municipal Code. Under the oversight of the City Treasurer, responsibility for the operation of the investment program may be delegated to the Finance Administration staff, who shall act in accordance with established written procedures and internal controls consistent with the investment policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the subordinate staff members. The system of internal controls includes separation of duties, custodial safekeeping, avoidance of physical delivery securities, development of wire transfer agreement, and clear delegation of authority to subordinate staff members.

# INVESTMENT GUIDELINES

## SAFETY OF PRINCIPAL

Safety of principal is the primary objective of The City. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker/dealer default or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk:

**Credit risk**, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

**Market risk**, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the City's investment portfolio to three years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

## LIQUIDITY

The City's financial portfolio shall be structured in a manner to ensure that the securities mature concurrent with anticipated cash demands. The portfolio should consist largely of securities with an active secondary or resale market to meet any unanticipated cash demands. A portion of the portfolio may be placed in money market funds or LAIF which offer same day liquidity for short term investment.

It is the full intent of the City to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity under the following circumstances:

- A security with declining credit may be sold early to minimize loss of principal,
- A security swap would improve the quality, yield, or target duration in the portfolio, or
- Liquidity needs of the portfolio require that the security be sold.

## INVESTMENT PARAMETERS

1) **Diversification** - The investment shall be diversified by:

- limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury and Federal Agency securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as LAIF or money market funds to ensure that appropriate liquidity is maintained in order to meet unanticipated cash demands.

2) **Maximum Maturities** - To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. The intent to invest in securities beyond the five year maturity limitation shall be disclosed in writing to the City Council no less than 3 months prior to the investment. As a general rule, the weighted average maturity of the investment portfolio will not exceed three years. Reserve funds established by the issuance of bonds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturity of such investments are made to coincide with the expected use of funds.

3) **Competitive Bidding** - It is the policy of the City to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non "new issue" securities and the sale of all securities, with the exception of U.S. Treasury securities, at least three bidders must be contacted.



Competitive bidding for security swaps is also recommended, however, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

### **PERFORMANCE EVALUATION/BENCHMARK**

- Investment performance is continually monitored and evaluated by The City Treasurer. Investment performance statistics and activity reports are prepared on a quarterly basis for presentation to the City Manager and City Council within 30 days of the end of the quarter.
- The investment portfolio benchmark yield shall be the 12 month average yield of the three-year U.S. Treasury note. This benchmark yield coincides with the City's intended weighted average maturity of three years.

### **SAFEKEEPING OF SECURITIES**

- To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement or master repurchase agreement. All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent.
- Securities held in custody for the City shall be reviewed and verified quarterly by Finance staff who has not been assigned to the investment function.

### **INTERNAL CONTROL**

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third party custodian

### **REPORTING**

- The City Treasurer shall review and render quarterly reports to the City Manager and City Council which shall include the par and dollar amount of the investment, the classification of the investment, the percentage of the total portfolio which each type of investment represents, the name of the institution or entity, the rate of interest, the maturity date, the current market value, and the source of the market value.
- Statement that the projected cash flow is adequate to meet expected obligations over the next six months.
- The weighted average maturity of the investment portfolio.
- The average weighted yield to maturity of the portfolio as compared to the applicable benchmark.
- Statement of compliance with the investment policy.
- The report is due within 30 days of the end of the quarter.
- The City Manager may, at his discretion, require this reporting on a monthly basis based upon market conditions.

## **QUALIFIED BROKER/DEALERS**

- The City shall transact business with financial institutions and security broker/dealers after careful review of their qualifications and creditworthiness. All dealers who desire to do business with the City shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of National Association of Securities Dealers certification, etc.) from which the City can determine their creditworthiness, the existence of any pending legal action against the firm or the individual broker as well as an understanding of the security markets that they service. The City Treasurer shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

## **COLLATERAL REQUIREMENTS**

Collateral is required for investments in non-negotiable certificates of deposit and repurchase agreements. In order to reduce market risk, the collateral level shall be at least 102% of market value of principal and accrued interest and marked-to-market weekly. Securities acceptable as collateral shall be the direct obligations of, or are fully guaranteed as to principal and interest by the United States or any agency of the United States.

## **AUTHORIZED INVESTMENTS**

Investment of City funds is governed by the California Government Code, Sections 16340, 16429.1-16429.4, and 53600-53686. Within the context of the limitations, the following investments are authorized, as further limited herein:

- 1) **United States Treasury Bills, Bonds, and Notes** or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, though a five year maturity limitation is applicable.
- 2) **Federal Agency Obligations** - Obligations issued by the Federal Government agencies such as Government National Mortgage Association (GNMA), the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio which can be invested in this category, although a five year maturity limitation is applicable.
- 3) **Bills of Exchange/Time Drafts**- Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Purchase of banker's acceptances may not exceed 180 days maturity or 40% of the cost value of the portfolio. Furthermore, no more than 30% of the cost value of the portfolio may be invested in the banker's acceptances of any one commercial bank.
- 4) **Commercial Paper** of the highest letter and number rating as provided by at least two nationally recognized statistical rating organizations, issued by general corporations organized and operating within the United States, having assets in excess of \$500,000,000 and having an "A" or better rating on their long term debentures as provided by at least two nationally recognized statistical rating organizations. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 40% of the cost value of the portfolio for Pooled Funds and 25% of the cost value of the portfolio for Non-Pooled Funds.
- 5) **Negotiable Certificates of Deposit** issued by nationally or state chartered banks, state or federal savings institutions, or state-licensed branch of foreign banks. Purchases of negotiable certificates of deposit may not exceed 30% of the cost value of the portfolio. A maturity limitation of five years is applicable.

- 6) **Repurchase Agreements** - Repurchase agreements may be made on any investment authorized by this investment policy. The maturity of the repurchase agreements shall not exceed one year. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff weekly and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase agreement is required between the City and the dealer for all repurchase agreements transacted.
- 7) **Time Deposits** - Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. A maturity limitation of five years is applicable.
- 8) **Medium-Term Corporate 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 maximum maturity of five years may be purchased. Securities eligible for investment shall be rated "A" or better by at least two nationally recognized statistical rating organizations. Purchase of medium-term notes may not exceed 30% of the cost value of the portfolio and no more than 10% of the cost value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 10% limitation.
- 9) **Local Agency Investment Fund (LAIF)** - a State of California managed investment pool may be used up to the maximum permitted by California State Law.
- 10) **Money Market Funds** - Money Market funds invested in U.S. Government securities are permitted under this policy and under the California Government Code Section 53601. In order to be eligible for investment under this section, an investment objective of such a fund must be the maintenance of a price per share of \$1.00. Investment in such funds shall not exceed 20% of the City's total portfolio and no more than 10% of the City's total portfolio may be invested in any one money market fund. In addition, either one of the following criteria must be met:
- The fund shall have achieved a rating of "AAA" by at least two nationally recognized statistical rating organizations, or
  - The fund shall have retained an advisor who is registered or exempt from registration with the Security Exchange Commission with not less than five years' experience managing money market funds with assets under management in excess of five hundred million dollars (\$500,000,000).

For both the LAIF and Money Market Funds investment, a thorough investigation of the investment pool is required on a continual basis. The types of investment and average maturity as reported by LAIF on their monthly investment reports and by the Money Market Mutual Funds on their semiannual reports will be examined closely to ensure that the criteria for qualifying these investment pools remain unchanged.

- 11) **Security Swaps** - The City may take advantage of security swap opportunities to improve the overall quality, yield or target duration of the portfolio. A swap that improves the portfolio yield may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City's permanent investment file documents.
- 12) **Ineligible Investments** - Ineligible investments are those that are not described herein, including but not limited to, common stocks, reverse repurchase agreements, inverse floaters, range notes, mortgage derived interest only strips, derivatives securities, or any security that could result in zero interest accrual.

### **MAXIMUM INVESTMENT MATURITY AND PERCENTAGE**

The following matrix of maximum maturity and percentage limits, by instrument, are established for the City's total pooled funds portfolio:

<b>Investment Type</b>	<b>Maturity</b>	<b>Percentage</b>
Repurchase Agreements	1 Year	0 to 100%
Local Agency Investment Fund	Upon Demand	Up to State Limits
U.S. Treasury Bonds/Notes/Bills	5 Years	0 to 100%
U.S. Government Agency Obligations	5 Years	0 to 100%
Bankers' Acceptances	180 Days	0 to 40%
Commercial Paper — Pooled Funds	270 Days	0 to 40%
Commercial Paper — Non-Pooled Funds	270 Days	0 to 25%
Negotiable Certificates of Deposit	5 Years	0 to 30%
Time Certificates of Deposit	5 Years	0 to 100%
Medium-Term Corporate Notes	5 Years	0 to 30%
Money Market Funds	Upon Demand	0 to 20%

### **LEGISLATIVE CHANGES**

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City's Investment Policy and supersede any and all previous applicable language.

### **INTEREST EARNINGS**

All moneys earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio.

### **ANNUAL POLICY APPROVAL**

The City's investment policy shall be adopted by resolution of the City Council on an annual basis. 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 relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval.

## GLOSSARY OF TERMS

**Accrued Interest-** Interest earned but not yet received.

**Active Deposits-** Funds which are immediately required for disbursement.

**Amortization-** An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

**Arbitrage-** Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets.

**Asked Price-** The price a broker dealer offers to sell securities.

**Banker's Acceptance-** A high quality, short term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.

**Basis Point-** One basis point is one hundredth of one percent (.01). **Bid Price-**

The price a broker dealer offers to purchase securities.

**Bond-** A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**Book Value-** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**Broker-** Someone who brings buyers and sellers together and is compensated for his/her service.

**Certificate of Deposit-** A deposit insured up to \$250,000 by the FDIC at a set rate for a specified period of time.

**Collateral-** Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

**Commercial Paper-** Short-term, negotiable unsecured promissory notes of corporations.

**Comprehensive Annual Financial Report (CAFR)-** The official annual financial report for the City, prepared in conformity with Generally Accepted Accounting Principles (GAAP).

**Coupon-** The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

**Credit Risk -** Defined as the risk of loss due to failure of the issuer of a security.

**Current Yield-** The interest paid on an investment expressed as a percentage of the current price of the security.

**Custodian-** A bank or other financial institution that keeps custody of stock certificates and other assets.

**Defeased Bond Issues-** Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

**Delivery vs. Payment (DVP)-** Delivery of securities with a simultaneous exchange of money for the securities.

**Derivative-** Securities that are based on, or derived from, some underlying asset, reference date, or index.

**Discount-** The difference between the cost of a security and its value at maturity when quoted at lower than face value.

**Diversification-** Dividing investment funds among a variety of securities offering independent returns and risk profiles.

**Duration-** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**Fannie Mae-** Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

**Federal Reserve System-** The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

**Federal Deposit Insurance Corporation (FDIC)-** Insurance provided to customers of a subscribing bank which guarantees deposits to a set limit (currently \$250,000) per account.

**Fed Wire-** A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

**Freddie Mac-** Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

**Ginnie Mae-** Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

**Government Accounting Standards Board (GASB)-** A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**Guaranteed Investment Contracts (GICS)-** An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

**Inactive Deposits-** Funds not immediately needed for disbursement.

**Interest Rate-** The annual yield earned on an investment, expressed as a percentage.

**Investment Agreements-** An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

**Liquidity-** An asset that can easily and rapidly be converted into cash without significant loss of value.

**Local Agency Investment Fund (LAIF)-** A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

**Local Agency Investment Pool-** A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

**Market Risk-** Defined as market value fluctuations due to overall changes in the general level of interest rates.

**Market Value-** The price at which a security is trading and could presumably be purchased or sold.

**Maturity-** The date upon which the principal or stated value of an investment becomes due and payable.

**Modified Duration-** A measure of exposure to market risk of a security or a portfolio. It is the percent change in the price of a security (portfolio) or a 100 basis point change in the security's (portfolio's) yield.

**Mutual Funds-** An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

**Negotiable Certificate of Deposit-** A large denomination certificate of deposit which can be sold in the open market prior to maturity.

**New Issue-** Term used when a security is originally "brought" to market.

**Note-** A written promise to pay a specified amount to a certain entity on demand or on a specified date.

**Par Value-** The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

**Perfected Delivery-** Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

**Portfolio-** Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

**Primary Dealer-** A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

**Principal-** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**Prospectus-** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement")

**Prudent Investor Standard-** A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

**Purchase Date-** The date in which a security is purchased for settlement on that or a later date.

**Rate of Return-** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**Repurchase Agreement (REPO)-** A transaction where the seller agrees to buy back from the buyer (City) the securities at an agreed upon price on demand or at a specified date.

**Reverse Repurchase Agreement (REVERSE REPO)-** A transaction where the seller (City) agrees to buy back from the buyer the securities at an agreed upon price on demand or at a specified date.

**Risk-** Degree of uncertainty of return on an asset.

**Rule G-37 of the Securities Rulemaking Board-** Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

**Safekeeping Service-** An arrangement under which a third party institution holds securities or valuables under safe, controlled conditions. A safekeeping arrangement is evidenced by a safekeeping receipt.

**Sallie Mae-** Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

**Secondary Market-** A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities and Exchange Commission (SEC)-** The federal agency responsible for supervising and regulating the securities industry.

**Settlement Date-** The date on which a trade is cleared by delivery of securities against funds.

**Tax and Revenue Anticipation Notes (TRANS)-** Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

**Time Certificate of Deposit-** A non-negotiable certificate of deposit which cannot be sold prior to maturity.

**Treasury Bills-** U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.



**Trustee or trust company or trust department of a bank-** A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

**Underwriter-** A dealer which purchases a new issue of municipal securities for resale.

**U.S. Government Agencies-** Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

**U.S. Treasury Obligations-** Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. Bills are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations which mature between 1 year and 10 years. Bonds are long-term obligations which generally mature in **10** years or more.

**Weighted Average Maturity (WAM)-** The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**Yield-** The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

**Yield to Maturity-** The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

**Yield Curve-** A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.