

# City of San Leandro Finance Committee

## Portfolio Update

October 22, 2025

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# Agenda

**Investment Policy Review**

**Portfolio Benchmark and Strategy**

**Economic Update**

# Investment Policy Review



# Investment Policy Review Overview

- PFMAM in coordination with City staff completed a thorough review of the City's Investment Policy.
- The City's Policy is comprehensive and well written.
- Changes are being recommended to:
  - Bring Policy language more in line with California Government Code language.
  - Bring Policy more in line with best practices.
  - Increase clarity.
  - Increase investment opportunities in agency mortgage-backed securities, negotiable CDs, and municipal obligations.



# Investment Policy Recommendations

- Bring Policy language on permitted investments more in line with California Government Code language. Edits were made to the following investment types:
  - Commercial Paper
  - Mortgage-Backed and Asset-Backed Securities
  - Supranational debt
  - Other Investment Pools
- Recommended edits do not alter what the City is authorized to purchase.

Asset-Backed Security		
MBALT 2024-A A3 DTD 05/23/2024 5.320% 01/18/2028	58770JAD6	500,000.00
GMCAR 2023-2 A3 DTD 04/12/2023 4.470% 02/16/2028	362583AD8	338,950.22
TLOT 2025-A A3 DTD 02/26/2025 4.750% 02/22/2028	89239NAD7	1,265,000.00
Supra-National Agency Bond / Note		
INTL FINANCE CORP DTD 12/06/2023 4.375% 01/15/2027	45950KDF4	1,415,000.00

# Investment Policy Recommendations

- Bring Policy more in line with best practices.
- CMTA guidance recommends policies include the following separate sections:
  - Investment Pools/Mutual Funds
  - Investment Policy Adoption
- Expanded existing sections:
  - Collateralization
  - Performance Standards



# Investment Policy Recommendations

- Increase clarity
  - Consolidated several paragraphs on deposit accounts into one paragraph.
  - Removed paragraph on Reverse Repurchase Agreements from the **Authorized and Suitable Investments** as they are listed as prohibited in the **Prohibited Investment Vehicles and Practices** section.
  - In the **Socially Responsible Investing** section we edited language so that it is consistent with PFMAM's screening process.



# Investment Policy Recommendations

- Increase investment opportunities
  - Added language in the **Authorized and Suitable Investments** section to allow for:
    - Increased investment opportunities in agency mortgage-backed securities
    - Investment in negotiable CDs
    - Increased investment opportunities in municipal obligations





# Portfolio Benchmark and Strategy



# Portfolio Benchmarks

- Purpose of a benchmark
  - Measures and evaluates relative investment performance
  - Provides for a comparison of risk and return
  - Defines and evaluates a long-term investment strategy
- A benchmark should:
  - Be an independent representation
  - Reflect asset mix, credit quality, and average maturity or duration of the portfolio; and/or a baseline, such as a U.S. Treasury index
  - Reflect realistic performance expectations



# Risk and Return of Various Benchmarks

- A shorter-duration strategy reduces market value risk but also return.

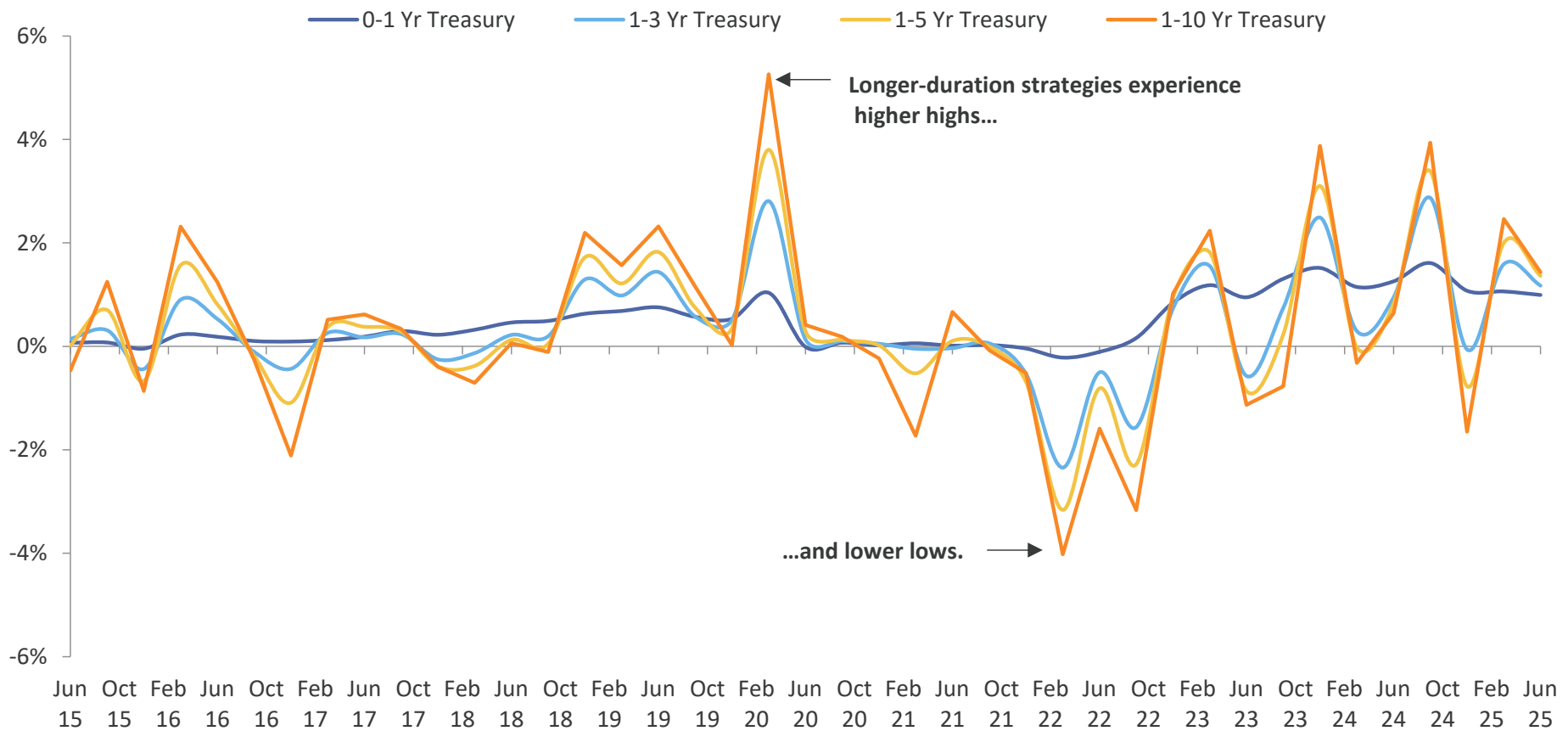
Risk/Return of Various Investment Strategies 20 Years Ended June 30, 2025				
ICE BofA Treasury Index	Duration (years)	Annualized Total Return	Cumulative Value of \$150 Million	Quarters With Negative Return
3-Month Treasury Bill	0.23	1.69%	\$209,930,559	1 out of 80
0-1 Yr Treasury	0.51	1.83%	\$215,672,989	6 out of 80
1-3 Yr Treasury	1.84	2.06%	\$225,530,241	18 out of 80
1-5 Yr Treasury	2.55	2.34%	\$238,297,143	24 out of 80
1-10 Yr Treasury	3.57	2.65%	\$252,985,879	29 out of 80
3-5 Yr Treasury	3.66	2.77%	\$259,229,931	31 out of 80

Source: Bloomberg as of June 30, 2025.

# Risk and Return of Various Benchmarks

- Historically, we see increased volatility in longer-duration strategies.

Quarterly Returns of Various Indices  
June 2015 – June 2025



Source: Bloomberg as of June 30, 2025.

# Government/Corporate Benchmarks

Risk/Return of Various Investment Strategies 20 Years Ended June 30, 2025				
ICE BofA Index	Duration (years)	Annualized Total Return	Cumulative Value of \$150 Million	Quarters With Negative Return
1-3 Year Government	1.83	2.09%	\$227,092,696	17 out of 80
1-3 Year Corporate and Government A or Better	1.84	2.23%	\$233,319,881	15 out of 80
1-5 Year Government	2.54	2.35%	\$238,575,724	22 out of 80
1-5 Year Corporate and Government A or Better	2.57	2.50%	\$245,942,576	19 out of 80

- Government/Corporate indices typically comprise ~70% Treasuries.
- Historically have had fewer quarters of negative returns due to the increased income.

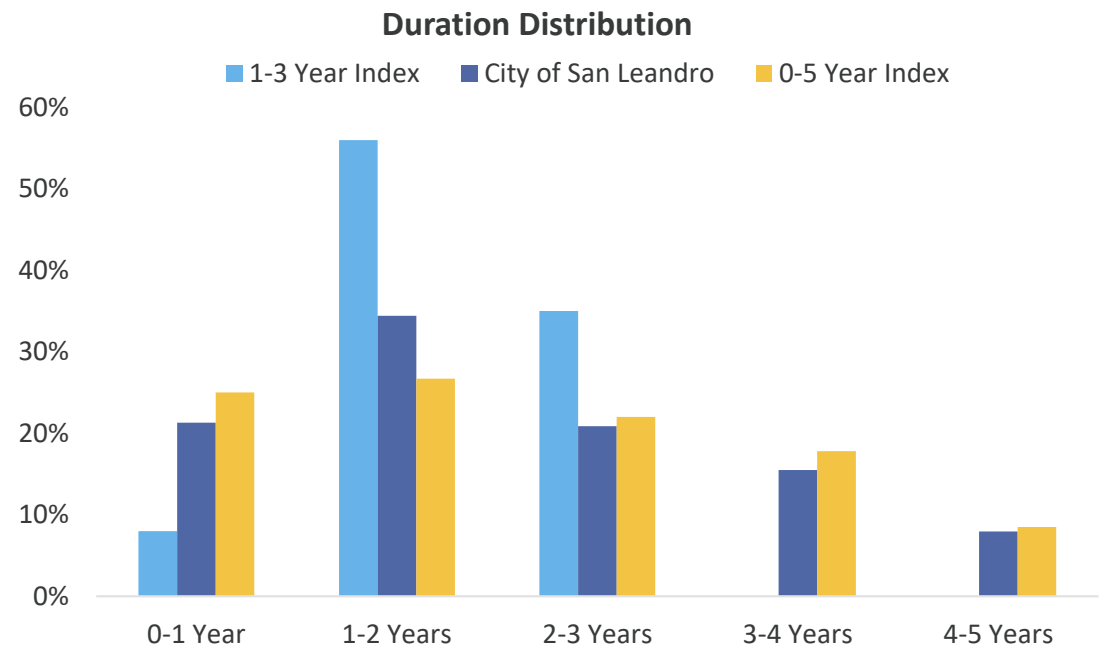
Source: Bloomberg as of June 30, 2025.

# City's Benchmark

- The City's portfolio recently transitioned from the 1-3 Year U.S. Treasury Index to the 0-5 Year U.S. Treasury index.

Risk/Return of Various Investment Strategies 20 Years Ended June 30, 2025				
ICE BofA Index	Duration (years)	Annualized Total Return	Cumulative Value of \$150 Million	Quarters With Negative Return
1-3 Yr Treasury Index	1.84	2.06%	\$225,530,241	18 out of 80
0-5 Yr Treasury Index	2.05	2.23%	\$233,173,971	20 out of 80

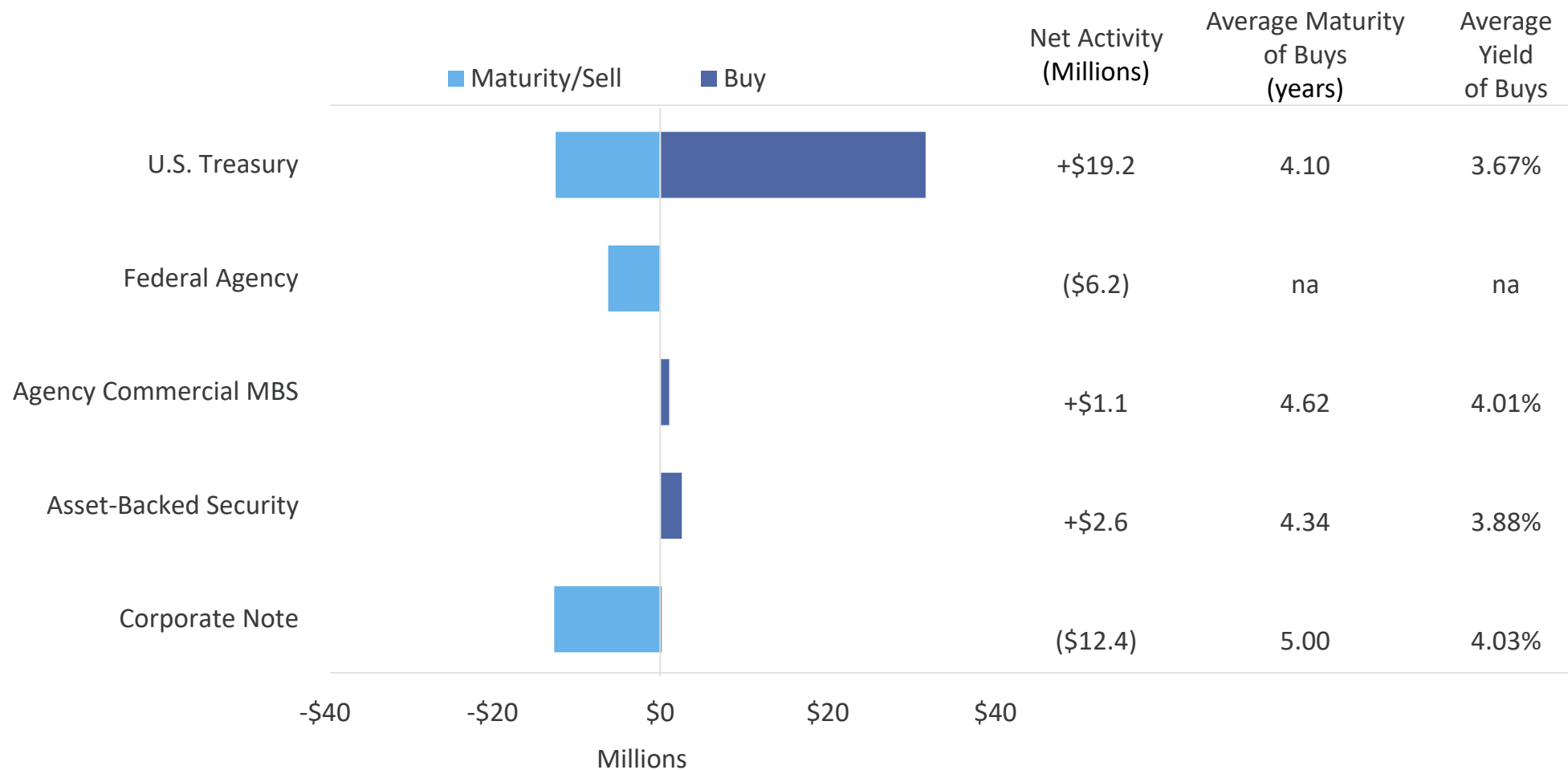
- A 0-5 year strategy allows the City to:
  - Utilize scale of California Government Code
  - Capture higher yields available in longer maturity securities.
  - Mitigate market value risk with an allocation to shorter, 0-1 year maturities.



Indexes are ICE Bank of America Merrill Lynch U.S. Treasury indexes, as of June 30, 2025. Duration distribution chart is as of September 19, 2025.

# Strategy Execution

## Summary of Portfolio Activity July 1, 2025 - September 19, 2025



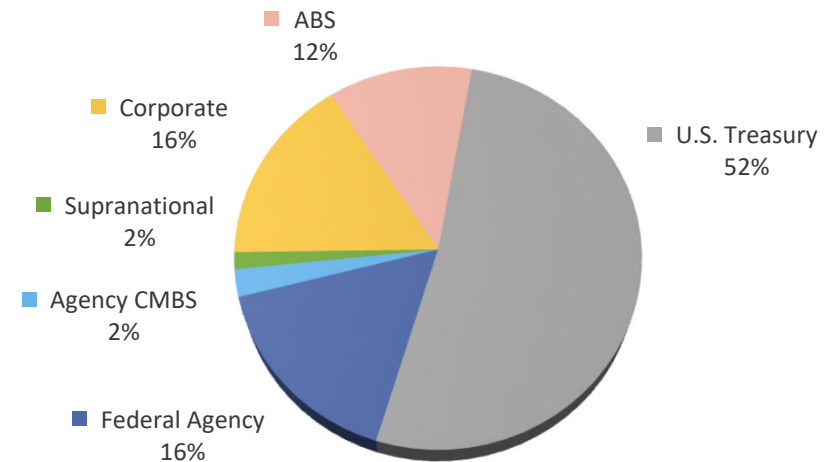
Source: PFMAM, as of September 19, 2025.

# Portfolio Snapshot

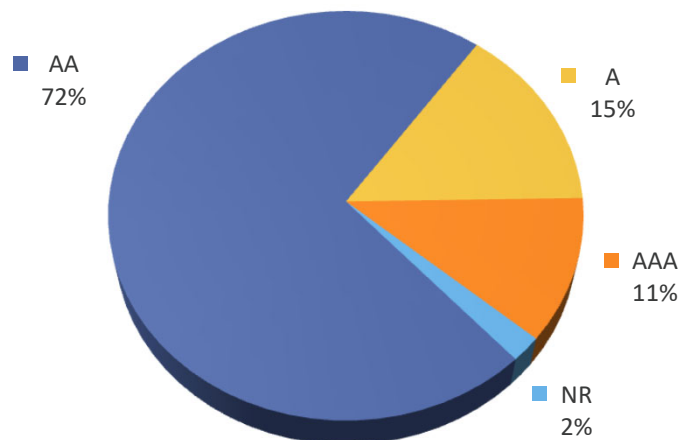
## Portfolio Statistics

Market Value	\$168,381,564
Duration	2.04 years
Yield at Cost	4.31%
Average Credit Quality	AA

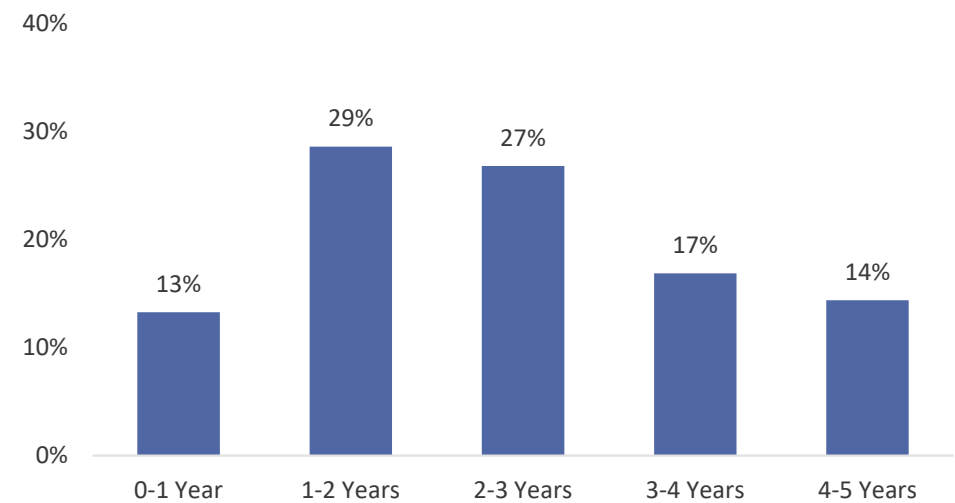
## Sector Allocation



## Credit Quality



## Maturity Distribution



As of September 19, 2025. Market value includes accrued interest and excludes cash.



# Outlook

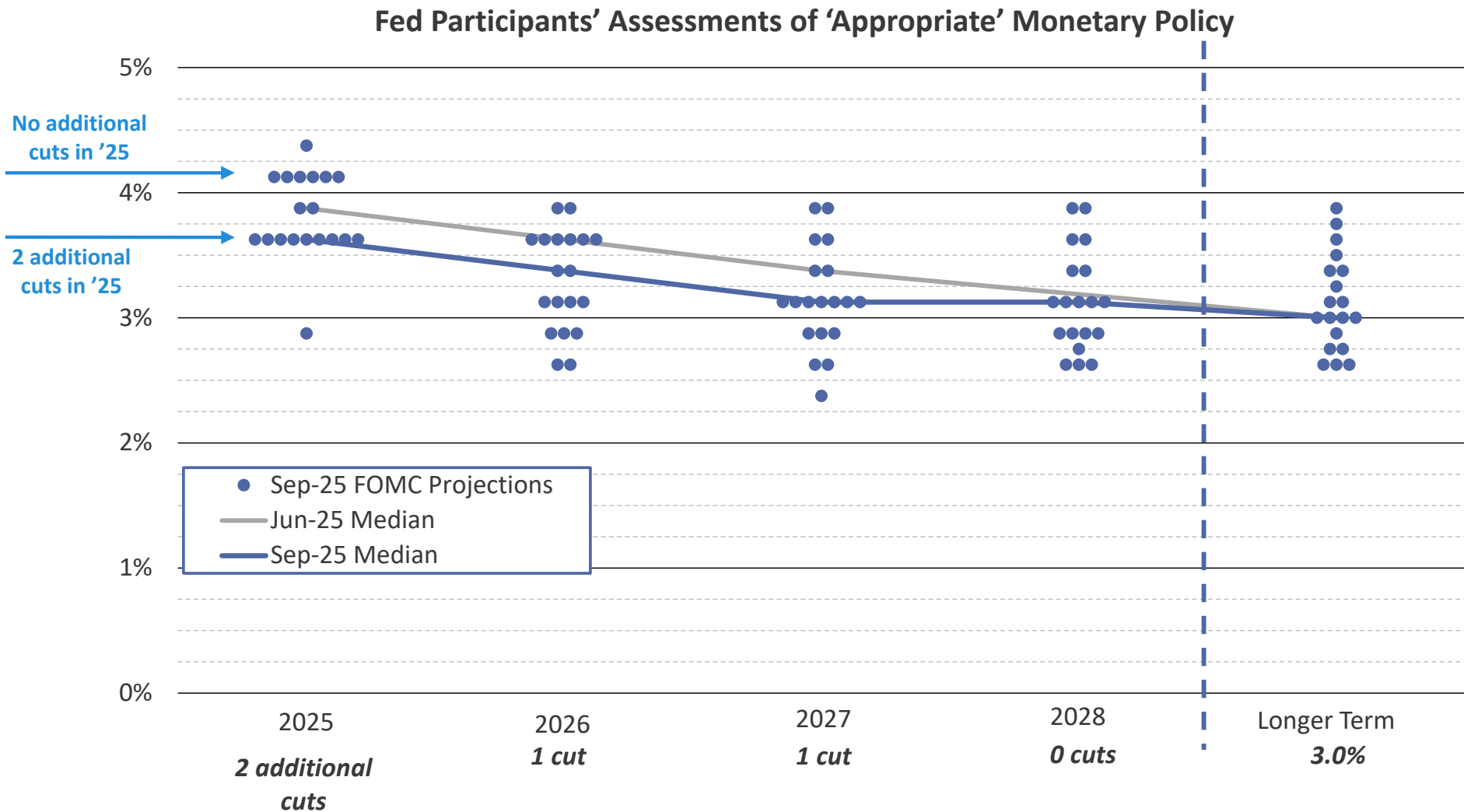
- Portfolio strategy
  - Continue to lock in duration
  - Maintain broad diversification by sector, industry, and issuer
  - Carefully manage risk and maintain high credit quality
- Communicating results
  - Quarterly Performance Reports
    - In addition to month end statements and daily reporting
  - Quarterly meetings with staff and Finance Committee
  - Annual, or as requested, updates to City Council



# Economic Update

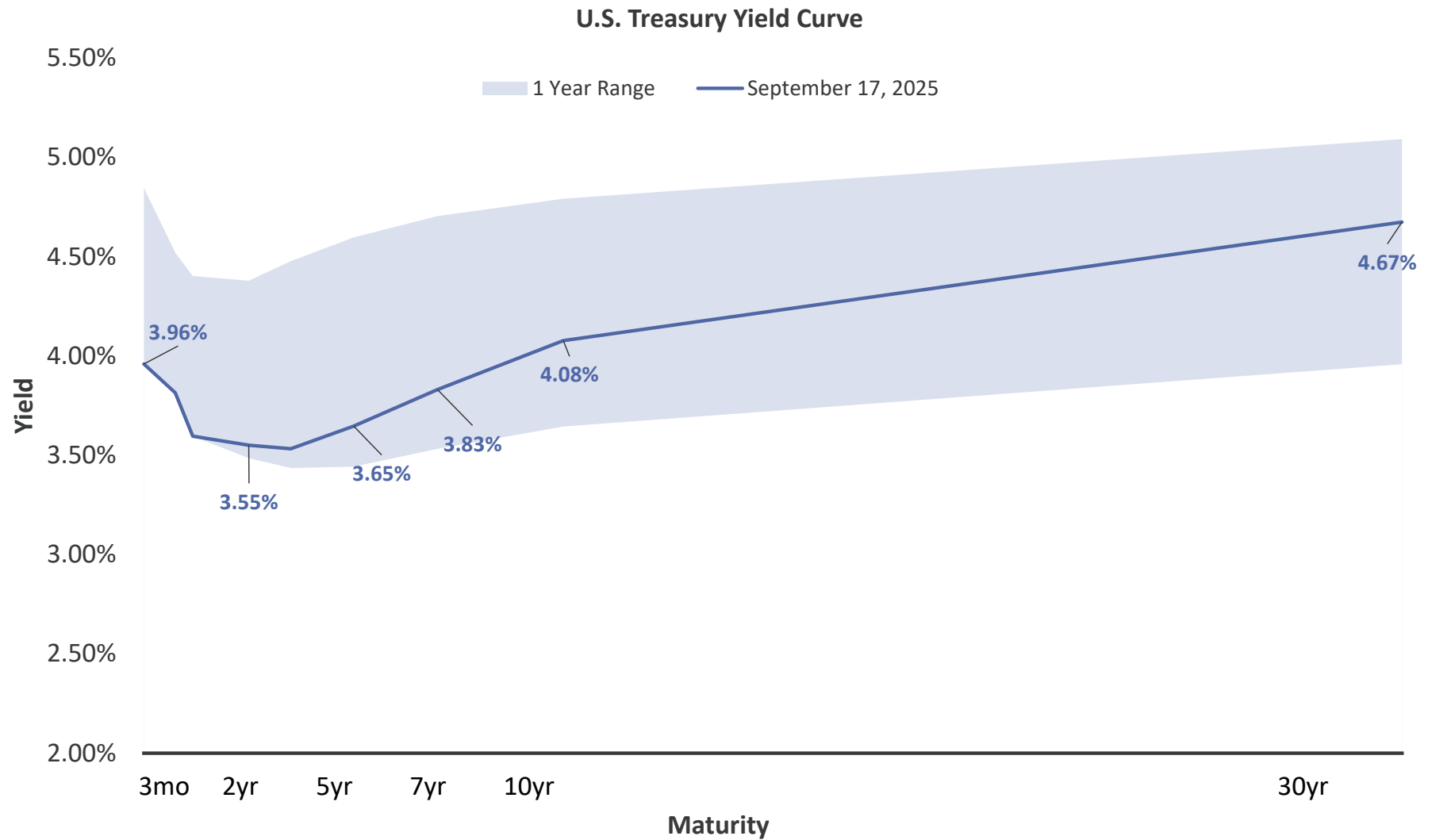


# The Latest Fed “Dot Plot”



Source: Federal Reserve; Bloomberg Finance L.P. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. As of September 2025.

# Treasury Yields Lower Across the Curve



Source: Bloomberg Finance L.P., as of September 17, 2025.

# Economic Outlook

- **Key Takeaways**

- The Federal Reserve lowered the federal funds rate to a target range of 4.00%–4.25% at its September meeting. The updated “dot plot” shows a median projection of two additional rate cuts in 2025, bringing the total to three cuts for the year.
- The Fed’s Summary of Economic Projections reflects no change in the median forecast for PCE inflation, which remains at 3.0%, while GDP growth was revised up to 1.6% and unemployment is projected to hold steady at 4.5%.
- CPI inflation in August increased by 2.9% YoY. Month-over-month inflation also came in hot at 0.38%, the highest since January. All major sectors saw increases, with energy in particular swinging almost 0.1% MoM.
- September’s jobs report painted a mixed picture of the labor market as the headline unemployment rate number worsens slightly, while payroll data worsens notably. The majority of job sectors showed negative growth in August, and growth over June and July has been revised significantly lower than initial estimates.

- **Risks to Outlook**

- Recession probabilities have fallen significantly from the first quarter as progress has been made on trade deals.
- Fed Chair Powell, in his press conference remarks, noted that risks to the labor market have increased notably, stating that the balance of risks has shifted between labor and inflation.
- Elevated geopolitical risks, including Ukraine, Israel, and China.



# Disclosures

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