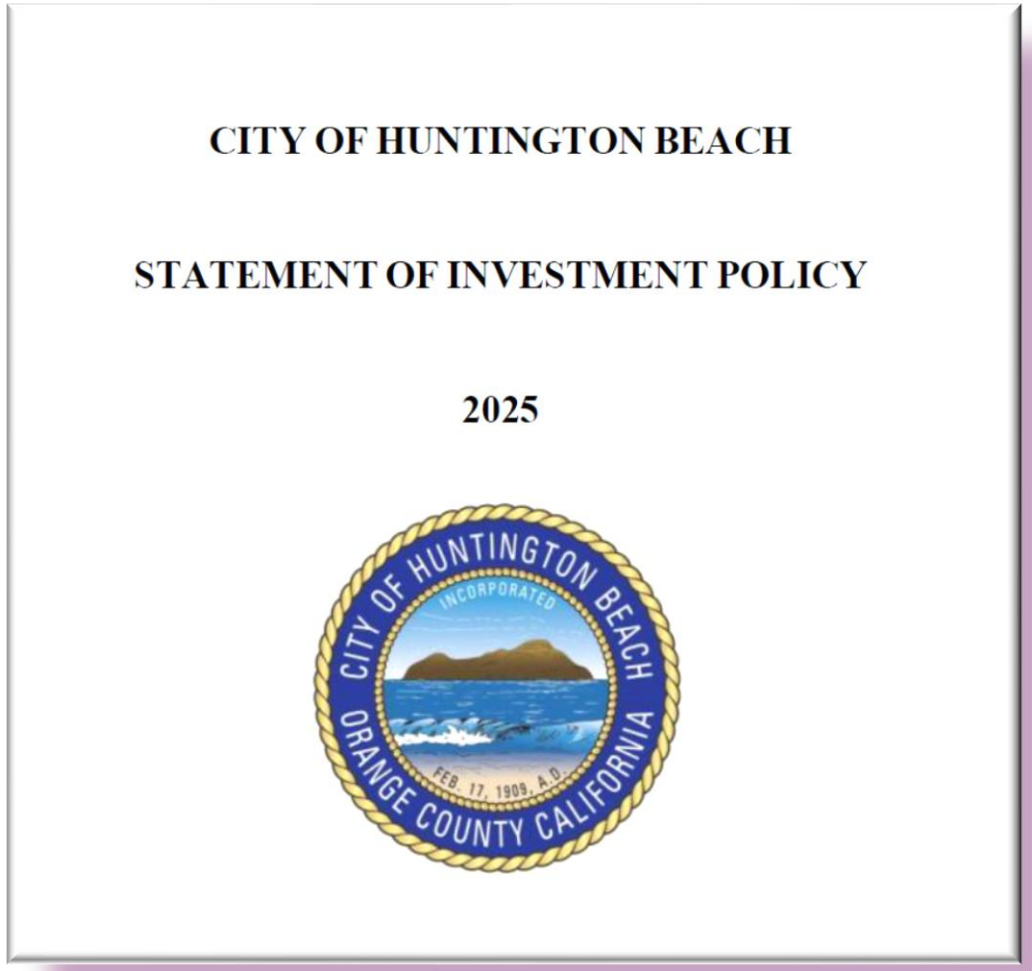
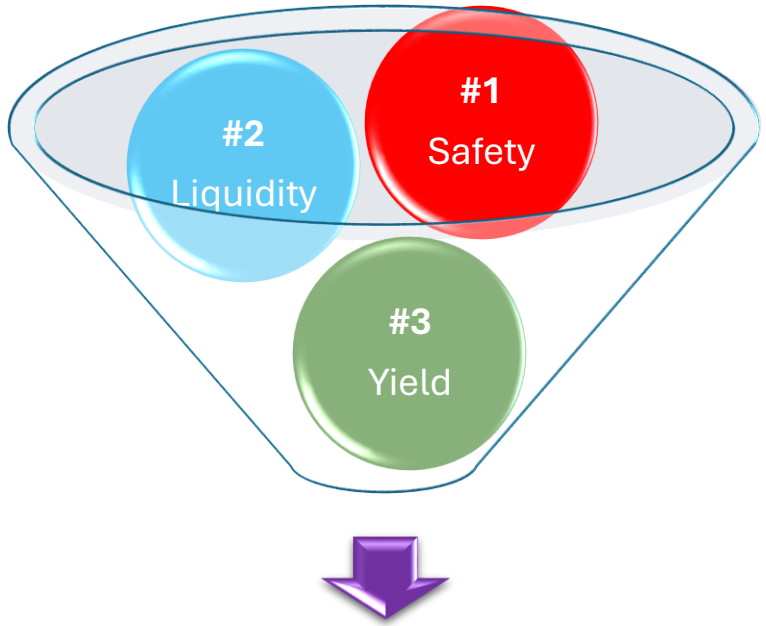
Q1 FY25-26 Investment Review and 2026 Investment Policy Discussion

City Council
November 18, 2025

Investment Policy Principles

Our city's investment policy is designed to provide guidelines for the prudent investment of all city cash balances with an absolute investment priority of safety, liquidity, and yield in that order

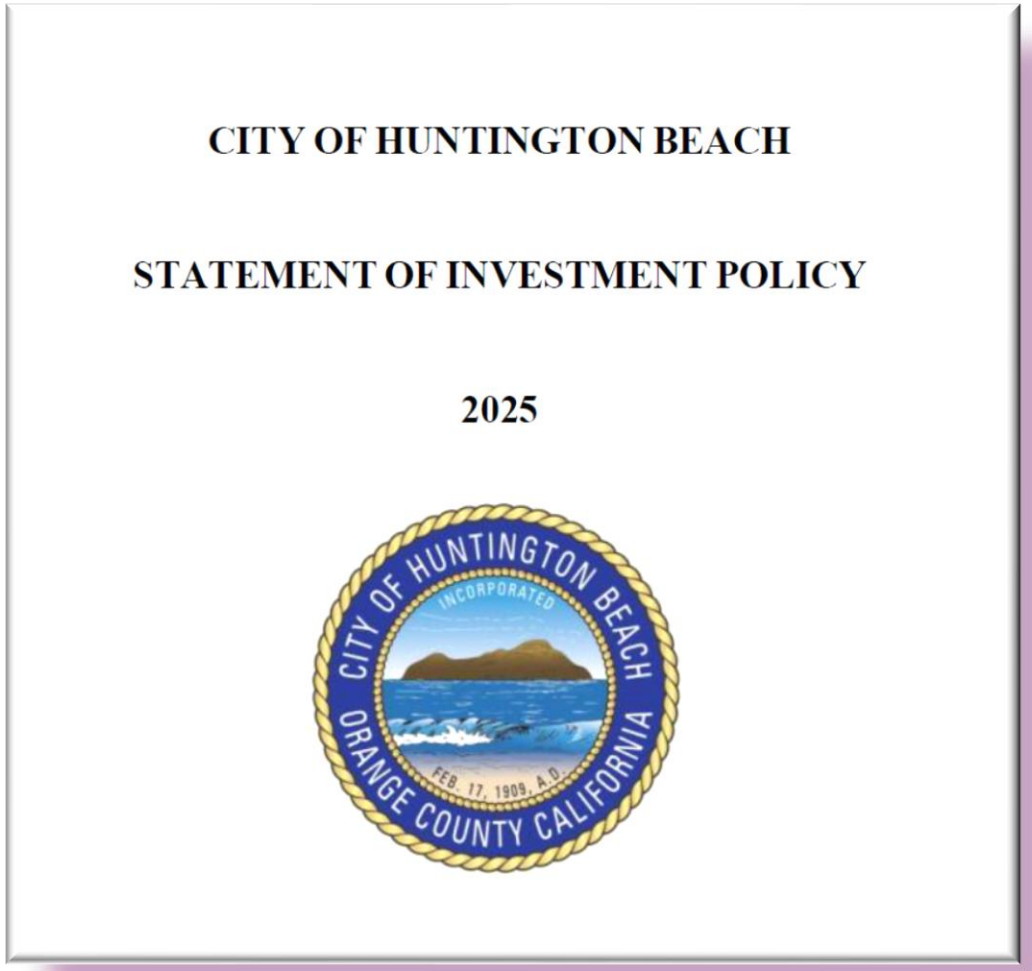




Prudent Investor Standard

2026 Investment Policy Review

We have revised the 2026 Investment Policy to incorporate upcoming California General Code changes, refine permissible portfolio investments, and simplify language to increase readability



Process Steps

- ✓ Ensured complete alignment with 2026 Code revisions
- ✓ Benchmarked policy against 7 California municipalities and 6 Treasurer peer reviews to capture best practices
- ✓ Solicited Investment Advisory Board feedback
- ✓ Increased transparency and readability of policy
- ✓ Submitting new policy to CMTA and APT for "scoring"

2026 Major Policy Changes

1) State Law: (a) Extend Commercial Paper maturity from 270 → 365 Days and (b) Eliminate Orange County Treasury Pooled Funds from acceptable investments
2) Investments: (a) Eliminate Reverse Repurchase Agreements and Bankers Acceptances and (b) Increase Joint Powers Authority limit to 25% of portfolio from $75 million
3) Maturities: Shorten Certificates of Deposit from 5 → 3 years
4) Portfolio: Reduce allowable portfolio share in 4+ year maturities from 50% → 25%

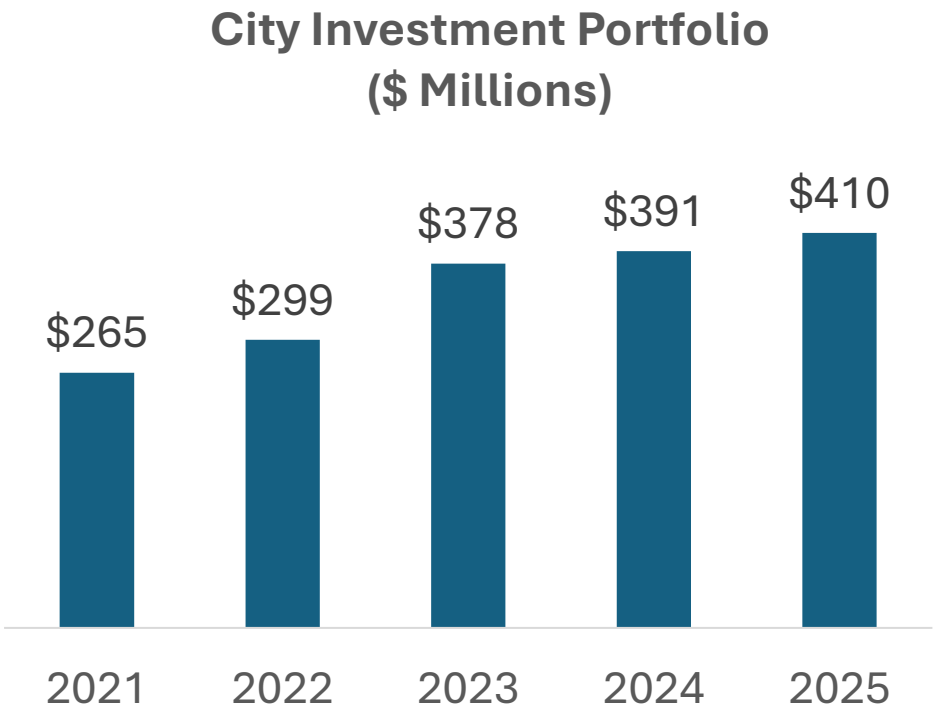
2026 Compliance Requirements

Huntington Beach's investment, issuer, and maturity requirements are either in line or more conservative than California Government Code requirements

Investment Type	California Government Code Limits			Policy Limits		
	Investment	Issuer	Maturities	Investment	Issuer	Maturities
U.S. Treasury Securities	100%	None	5 Years	100%	None	5 Years
U.S. Government Agency Securities	100%	None	5 Years	100%	None	5 Years
Commercial Paper	40%	10%	1 Year	40%	10%	1 Year
Certificates of Deposit	30%	None	5 Years	30%	10%	3 Years
Repurchase Agreements	100%	None	1 Year	100%	None	90 Days
Money Market Mutual Funds	20% of Agency Funds	10% of Agency Funds	N/A	15% of Agency Funds	10% of Agency Funds	N/A
Local Agency Investment Fund	$75M per account	N/A	N/A	$75M per account	N/A	N/A
Municipal Debt	100%	None	5 Years	100%	10%	5 Years
Medium-Term Notes	30%	None	5 Years	30%	10%	5 Years
Joint Power Authority	100%	None	N/A	25%	None	N/A
Supranational Securities	30%	None	5 Years	30%	None	5 Years

Investment Performance – Safety

As safety of principal is our paramount priority, we have constructed a bond portfolio mix that fully complies with California General Code and ensures that Huntington Beach does not sustain losses



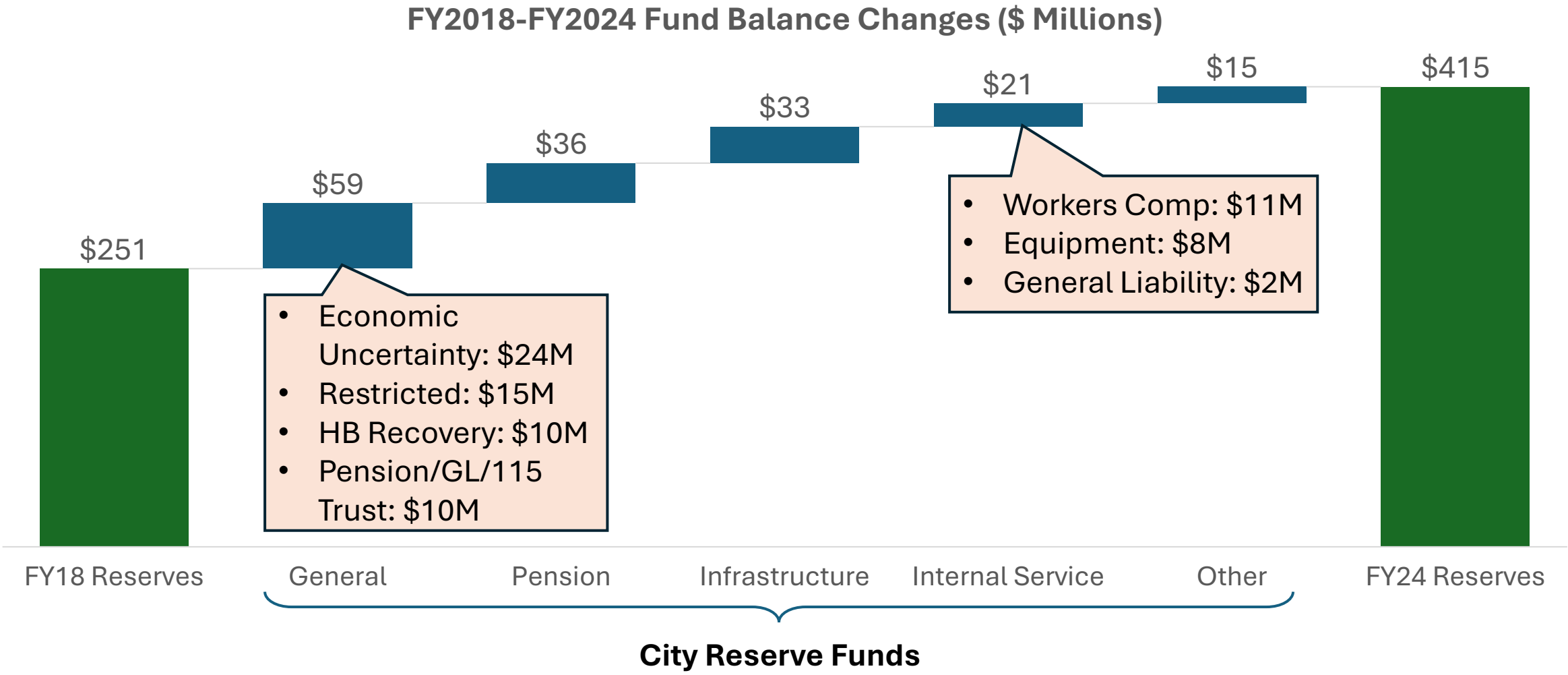
Compliance Check

Category	Maturity	Portfolio Share	Issuer Share	Quality	Overall
U.S. Treasury Securities	5 Years				Compliant
U.S. Government Agency Securities	5 Years				Compliant
Supranational Securities	5 Years	30%	30%	"AA" (or Higher)	Compliant
Medium-Term Notes	5 Years	30%	10%	"A" (or Higher)	Compliant
Money Market Mutual Funds	60 Days	15%	10%	"AAA" (or Higher)	Compliant
State and Local Investment Pools		$75M	$75M		Compliant

- Losses: Portfolio has experienced no losses and Treasurer held lower-yield bonds to ensure no losses
- Compliance: Portfolio must pass maturity, category/issuer concentration, and bond ratings checks
- Ratings: All holdings rated “A-” or higher with non-corporate bonds all AA+ or AAA (~80% are AAA/AA rated)
- Diversification: Portfolio has no issuer > 10% except US Treasuries, Federal Home Loan Bank, and State Pool

Sources of Fund Balance Increases (FY2018-FY2024)

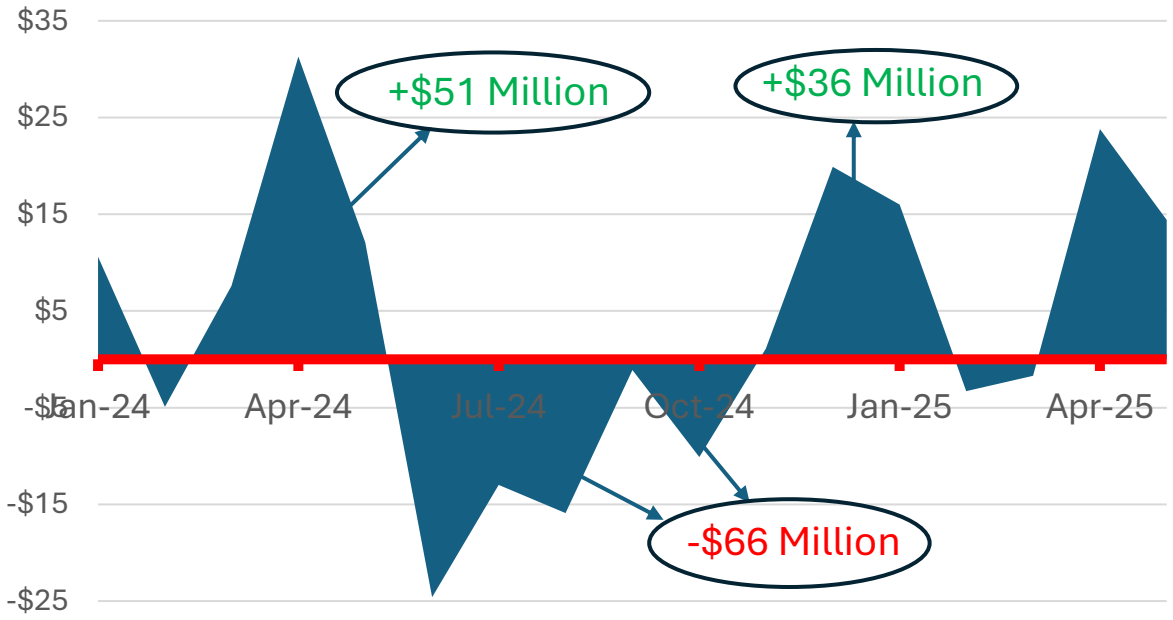
Huntington Beach's reserves increased by ~$160M from FY2018-FY2024, with that increase distributed across the General, Infrastructure, Pension, and Internal Services Funds



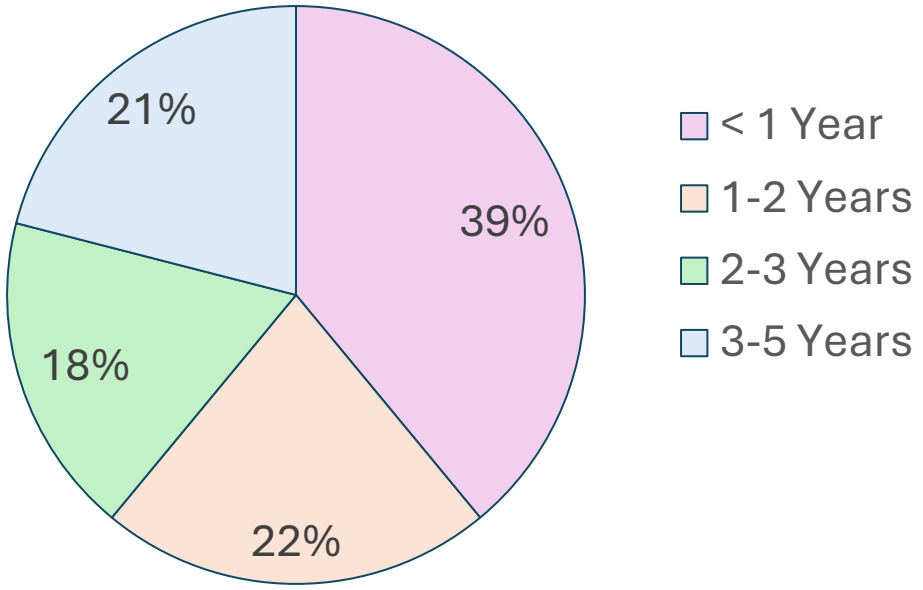
Investment Performance – Liquidity

Accurate cash flow management and a portfolio with ample short-term cash cushion is critical given our large monthly cash flow movements and large capital projects

Net Cash Position ($ Millions)



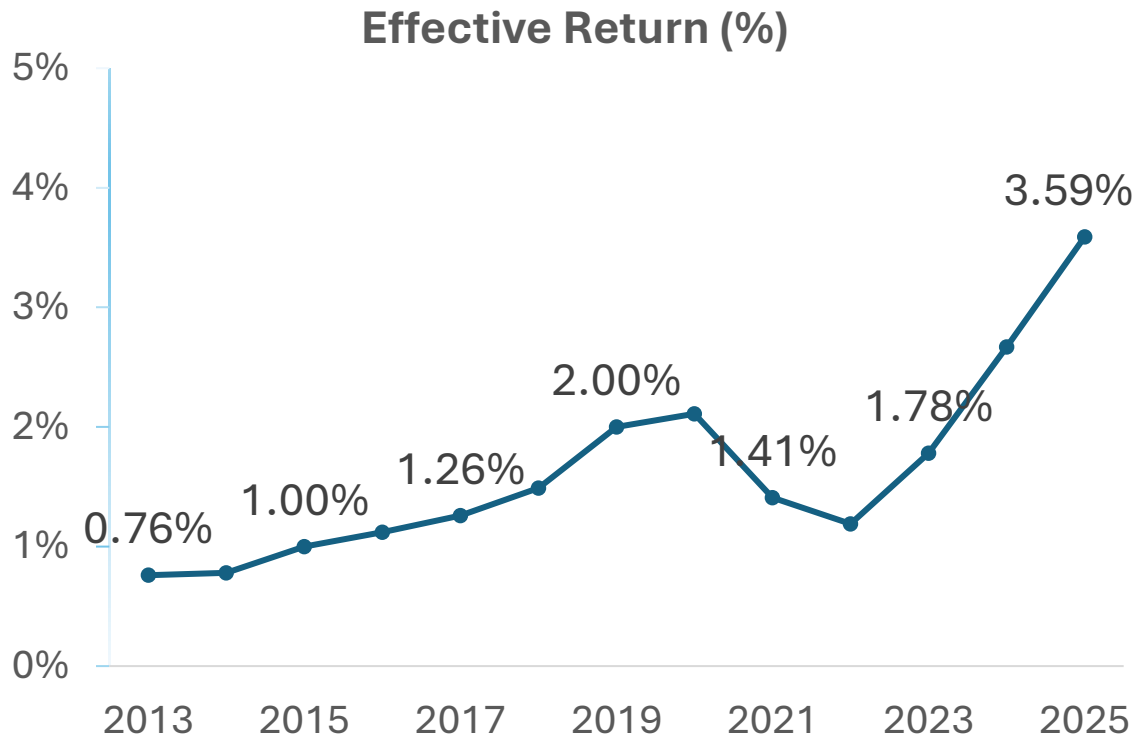
Portfolio Mix (%)

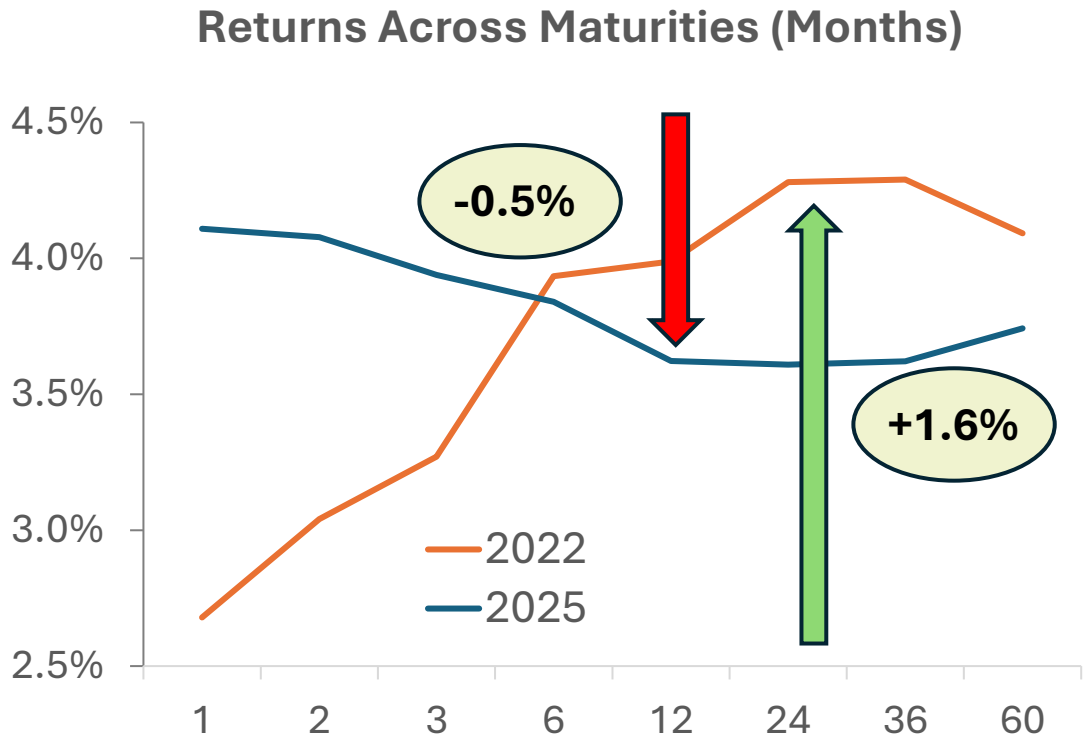


- Cash Flow: Varies across months primarily due to timing of property tax receipts and sales tax true-ups
- Cash Cushion: Portfolio contains ~$60 million in fully liquid funds and ~65% that could be liquidated easily
- Cash Flow Modeling: Treasury partnering with all city departments to build detailed 18-month cash flow models and 5-year capital improvement plan model to optimize maturity timing for longer-dated bonds

Investment Performance - Yield

Financial returns for Huntington Beach's portfolio has increased significantly since 2022 due to increasing interest rates and an inverted yield curve



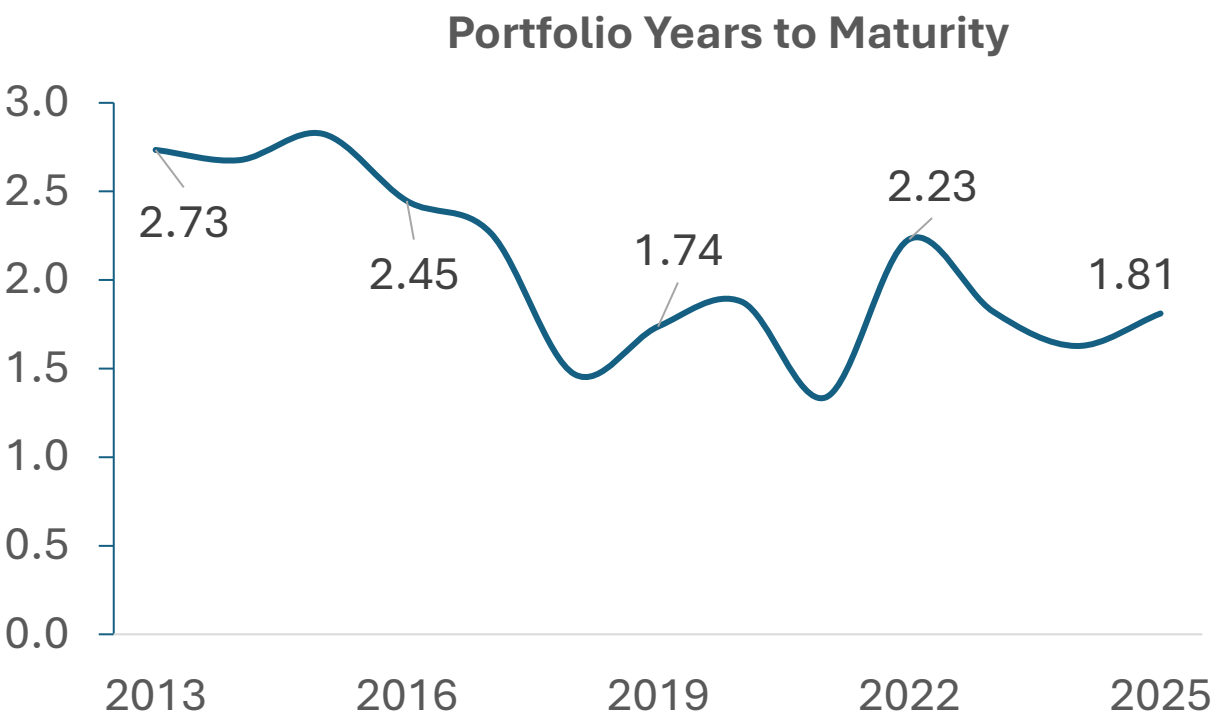


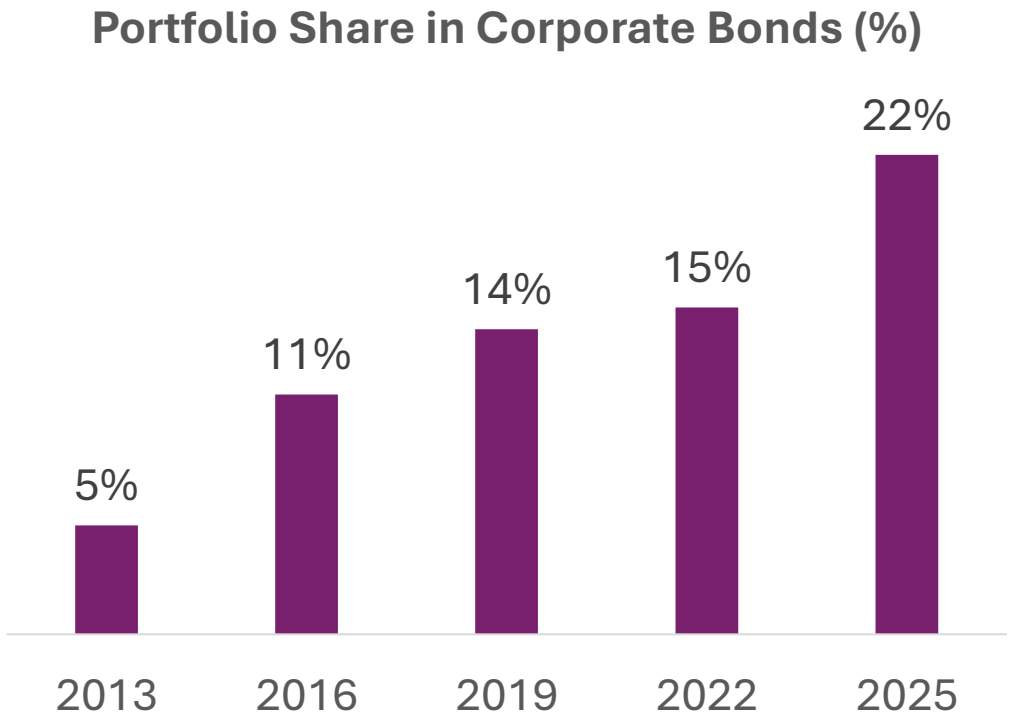
Observations

- Movement from 1% → 3% effective returns and reserve expansion since 2022 increased earnings by ~$10 million annually
- Interest rates returning to historical norms after "free money" period of the Federal Reserve surrounding the pandemic
- Current inverted yield curve is an anomaly – 2022 curve where longer-term investments have higher returns is the norm

Investment Performance - Yield

As the yield curve returns to normalcy over the next few years, Huntington Beach has a window to capture some incremental upside from increasing average bond duration and expanding our corporate bond mix



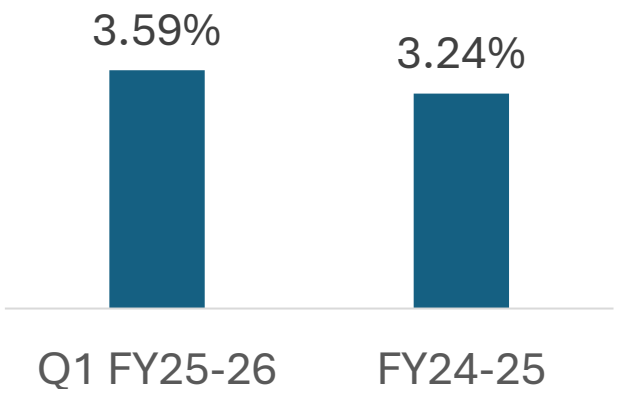


Opportunity to capture ~10-20bps without threatening Huntington Beach's liquidity position by: (1) purchasing longer-term bonds with maturities that align with our cash flow troughs and (2) expanding portfolio share of high-grade corporate bonds by 3-5%

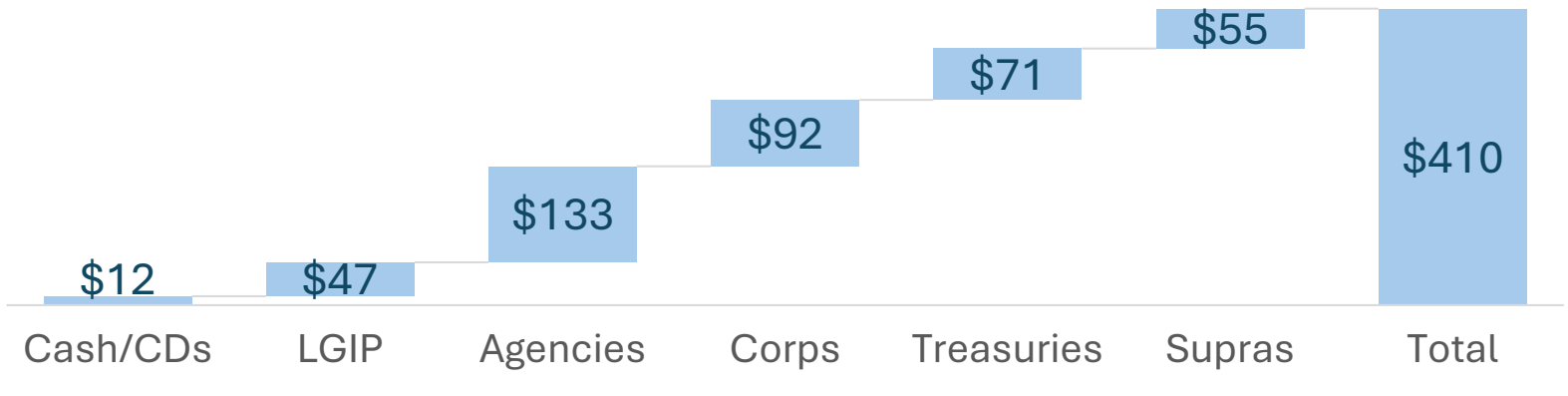
Q1 FY25-26 Investment Performance

Huntington Beach has ~$410M in investable reserves across short-term and long-term instruments, yielding a 3.59% return for this quarter versus 3.24% return for FY2024-2025

Portfolio Return (%)



Sector Breakdown



Compliance Check

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Supranational Securities	5 Years	30%	30%	"AA" (or Higher)	Compliant
Medium-Term Notes	5 Years	30%	10%	"A" (or Higher)	Compliant
Money Market Funds	60 Days	15%	10%	"AAA" (or Higher)	Compliant
State/Local Investment Pools		$75M	$75M		Compliant

- 6 purchases ($30 million) and 13 redemptions ($61 million)
- Portfolio meets maturity threshold with < 25% having 4+ year duration
- City does not have Bankers Acceptances, Repurchase Agreements, or Certificates of Deposit

Q1 FY25-26 Investment Performance Template - Summary

Future City Council presentations will focus on three quarterly investment summary documents – the first will be an overall portfolio return for the period

Period Earnings Summary (30 Days)	
Net Period Earnings	$1,245,030.67
Last FY Period Net Earnings	$948,660.13
Avg Daily Book Balance	$410,610,851.89
Net Effective Annual Return	3.752%

Fiscal YTD Summary (92 Days)	
Net Period Earnings	$3,755,651.19
Last FY Period Net Earnings	$2,900,878.54
Avg Daily Book Balance	$420,236,180.94
Net Effective Annual Return	3.593%

Period Transactions (Par)		
Redemptions	2	$10,000,000
Purchases	4	$20,000,000
Total Activity	6	$30,000,000

Fiscal YTD Transactions (Par)		
Redemptions	13	$60,875,000
Purchases	6	$30,000,000
Total Activity	19	$90,875,000

Aggregate transactions and dollars during quarter

City Portfolio Certification

I certify that this report and the corresponding pages attached accurately reflect all portfolio combined investments and conforms with all California state statutes and the Huntington Beach investment policy filed on December 19, 2023. The investment program herein shown provides sufficient cash flow liquidity to meet the next six month's obligations. Market values are provided by US Bank via Interactive Data Corp (IDC)

Jason Schmitt — City Treasurer — 09/30/2025

Jason Schmitt (Title) — Title — Date

Effective return and investment cash balance for quarter

Portfolio Investments

	Par Value	Book Value	Market Value	Book Value % of Port	Book Yield	Book Yield Contribution	Years to Maturity
Cash / Money Market	$12,097,563.18	$12,097,563.18	$12,097,563.18	2.96%	3.97%	0.12%	0.00
Local Govt Inv Pools (LGIP)	$46,760,732.86	$46,760,732.86	$46,760,732.86	11.45%	4.36%	0.50%	0.00
U.S. Treasuries	$71,000,000.00	$70,533,034.17	$70,951,130.00	17.26%	3.63%	0.63%	2.34
Supranational	$55,000,000.00	$54,749,902.26	$55,164,500.00	13.40%	3.71%	0.50%	2.03
U.S. Agencies	$132,455,000.00	$132,709,189.92	$132,600,938.65	32.48%	3.08%	1.00%	1.92
Corporates	$91,762,000.00	$91,694,884.52	$92,031,110.44	22.44%	4.18%	0.94%	2.26
Total	$409,075,296.04	$408,545,306.91	$409,605,975.13	100.00%		3.68%	1.81

Average time left for maturity on investments by type

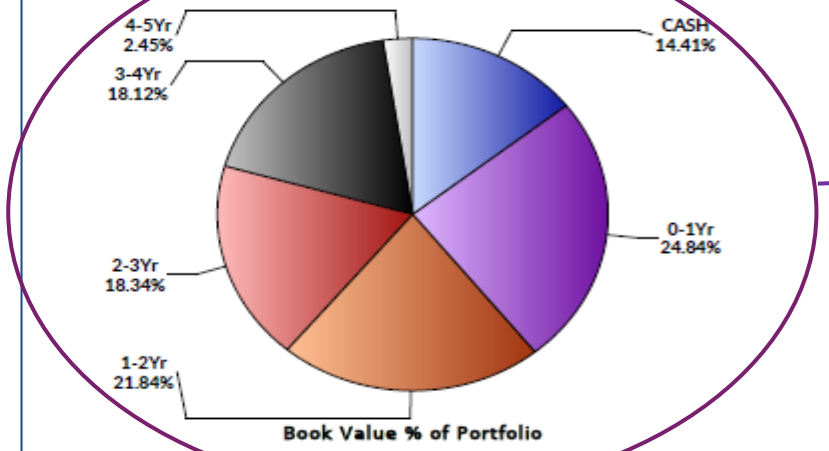
Q1 FY25-26 Investment Performance Template - Portfolio

Future City Council presentations will focus on three quarterly investment summary documents – the second will be a portfolio breakdown by maturity, investment type, and issuer concentration

Portfolio Characteristics

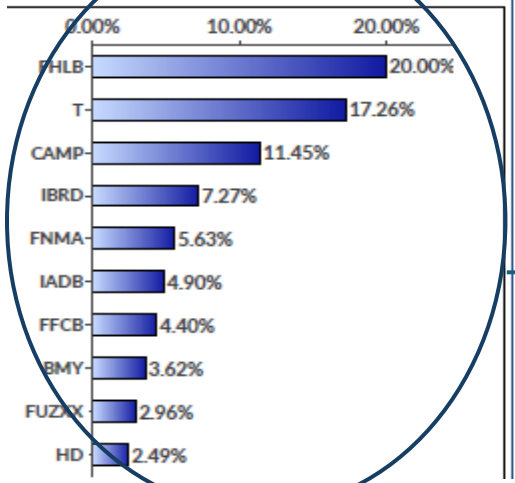
Portfolio Book Yield	3.68%	Weighted Avg Coupon	3.55%
Portfolio Market Yield	3.90%	Composite Rating	AA2
Effective Duration	1.52	Number of Securities Held	70
Weighted Avg Maturity (Yrs)/WAL	1.81	Median Security Size Held	$5,000,000.00
Weighted Avg Maturity (Days)	661	Net Asset Value (NAV)	$1.00260

Maturity Distribution



Overall portfolio investment distribution by time to maturity and investment type

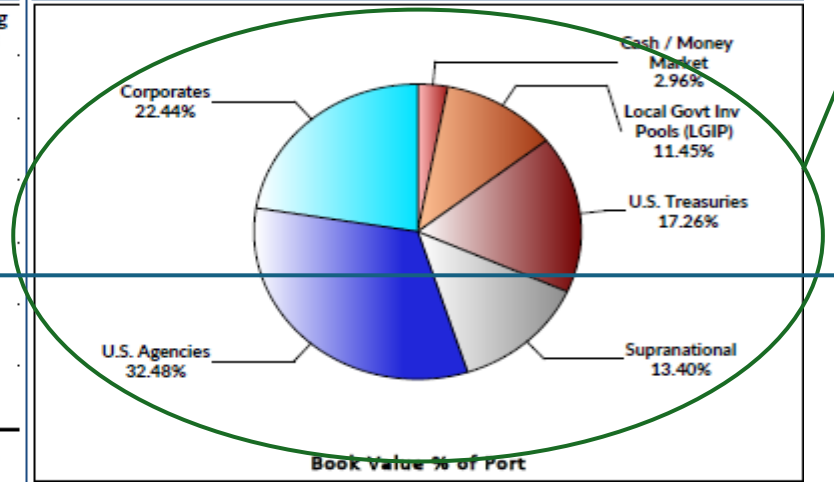
Issuer Holdings - Top 10



Callable Breakdown

	Call Options	Refunding Options
Onetime (1x)	3.67%	0.00%
Monthly (Dm)	0.00%	0.00%
Quarterly (Dq)	8.57%	0.00%
Semi-Annual (Ds)	1.32%	0.00%
Annual (Da)	3.67%	0.00%
Anytime (Cc)	4.81%	10.89%
Total	21.95%	10.89%

Sector Breakdown



Relatively issuer concentration for city's bond portfolio

Q1 FY25-26 Investment Performance Template - Compliance

Future City Council presentations will focus on three quarterly investment summary documents – the third will be a comprehensive compliance check relative to our City Investment Policy

Holdings Compliance Summary

	Investment Limit			Issuer Limit			Maximum Maturity			Credit Ratings		
	Limit	Actual	Compliant	Limit	Actual	Compliant	Limit	Actual	Compliant	Actual Min Rating Short Term	Actual Min Rating Long Term	Compliant
U.S. Treasuries	100.00%	17.26%	Yes	100.00%	17.26%	Yes	5.00 Years	3.83 Years	Yes	N/A	N/A	Yes
Supranational	30.00%	13.40%	Yes	100.00%	7.27%	Yes	5.00 Years	3.75 Years	Yes	N/A	AAA/Aaa/AAA	Yes
U.S. Agencies	100.00%	32.48%	Yes	100.00%	20.00%	Yes	5.00 Years	4.21 Years	Yes	N/A	N/A	Yes
Corporates	30.00%	22.44%	Yes	10.00%	3.62%	Yes	5.00 Years	4.98 Years	Yes	N/A	A/A2/A	Yes

Overall bond portfolio compliance check based on investment/issuer limits, maturities, and credit ratings

Cash Compliance Summary

Cash Account	Account Description	% of Portfolio Maximum	% of Portfolio	% Investable	Dollar Portfolio Maximum	Current Book Value	Investable Value	Compliant
003-CAMP	California Asset Management Program		11.45%		$75,000,000.00	$46,760,732.86	$28,239,267.14	Yes
	LGIP		11.45%			$46,760,732.86		Yes
104-FUZXX	First American Treasury Obligations	15.00%	2.96%	12.04%		$12,097,563.18	$49,184,232.86	Yes
	Cash/Money Market	15.00%	2.96%	12.04%		$12,097,563.18		Yes

Compliance check for cash and money market holdings (including government pools)

Internal and External Initiatives

Beyond investment strategy, we are focused on deploying automation in cash collection/disbursement efforts and deploying community programming to help residents achieve their American Dream

Internal Initiatives

- ❑ Adopt technology to streamline collections and increase administrative efficiencies
- ❑ Install self-service kiosks and QR codes to facilitate electronic payments
- ❑ Deploy AI-based system to identify unpermitted short-term rental operators
- ❑ Partner with bank to simplify processes via electronic data feeds
- ❑ Complete collections process for dormant citations issued during pandemic
- ❑ Comprehensive audits of hotel TOT payments

External Initiatives

- ❑ Provide overview of Treasurer Office services and solicit community feedback
- ❑ Introduce workshops and 1-on-1 counseling related to personal finances and investments for seniors, working age adults, and youth
- ❑ Partner with Police Department to expand tax, investment, and identity scam classes
- ❑ Expand local access to free tax preparation
- ❑ Develop short-term rental operator trainings