

Moore, Tania

From: Estanislau, Robin
Sent: Saturday, October 30, 2021 8:31 AM
To: Moore, Tania; Switzer, Donna
Cc: Esparza, Patty
Subject: FW: City Treasurer Information RE: City Council item 21-827 Submitted by Councilmember Kalmick and Councilmember Moser: Divest Corporate Bond Holdings of Fossil Fuel Corporations

**SUPPLEMENTAL
COMMUNICATION**

Supplemental Communication

Meeting Date: 11/2/2021

From: Backstrom, Alisa <Alisa.Backstrom@surfcity-hb.org>
Sent: Friday, October 29, 2021 3:36 PM
Cc: Estanislau, Robin <Robin.Estanislau@surfcity-hb.org>; Bolton, Rhonda <Rhonda.Bolton@surfcity-hb.org>; Carr, Kim <Kim.Carr@surfcity-hb.org>; Chi, Oliver <oliver.chi@surfcity-hb.org>; Delgleize, Barbara <Barbara.Delgleize@surfcity-hb.org>; Delgleize, Barbara <Barbara4hb@gmail.com>; Gates, Michael <Michael.Gates@surfcity-hb.org>; Hopkins, Travis <thopkins@surfcity-hb.org>; Kalmick, Dan <Dan.Kalmick@surfcity-hb.org>; Moser, Natalie <Natalie.Moser@surfcity-hb.org>; Peterson, Erik <Erik.Peterson@surfcity-hb.org>; Posey, Mike <Mike.Posey@surfcity-hb.org>; Posey, Mike <mikeposey@earthlink.net>; Backstrom, Alisa <Alisa.Backstrom@surfcity-hb.org>
Subject: City Treasurer Information RE: City Council item 21-827 Submitted by Councilmember Kalmick and Councilmember Moser: Divest Corporate Bond Holdings of Fossil Fuel Corporations

Agenda Item No.: 31 (21-827)

Good afternoon:

I would like to provide some information so that you may make an informed decision regarding this item. Please do not hesitate to contact me if you should like further information.

CITY OF HUNTINGTON BEACH

INVESTMENT PORTFOLIO INFORMATION – CORPORATE BONDS/Chevron Bond

October 29, 2021

Prepared by: Alisa Backstrom – City Treasurer, Colin Stevens – Analyst

AS OF: September 30, 2021

Investment Type	% of portfolio	yield to maturity
Federal Agency Issues	33.8%	1.232%
Local Agency Investment Fund (LAIF)	4.6%	0.206%
Treasury Securities	8.5%	1.048%
Medium Term Notes - Supranationals	12.7%	1.020%
Corporate Bonds	15.1%	2.319%
OC Investment Pool	23.5%	0.562%
US Bank Money Market Sweep	1.8%	0.020%

The yield to maturity of the Corporate Bonds as a group is 2.319%, the highest yield of all investment types in the portfolio. This makes sense according to the risk-reward scenario, which provides the potential of greater return with more risk.

CORPORATE BOND HOLDINGS AS OF SEPTEMBER 30, 2021

Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P
Apple Inc.		04/29/2020	5,000,000.00	5,129,450.00	5,103,309.65	2.400	
Chevron Corp		05/24/2019	5,000,000.00	5,211,900.00	5,051,069.05	3.191	AA
Disney		12/16/2019	2,875,000.00	3,081,885.00	2,981,153.85	4.000	
Home Depot Inc		05/24/2019	5,000,000.00	5,069,850.00	5,004,691.81	2.625	A
IBM Corp		09/28/2018	3,000,000.00	3,039,990.00	2,966,485.90	1.875	A
PEPSICO INC		12/21/2018	5,000,000.00	5,090,250.00	4,997,742.69	3.100	
Texas Instruments Inc		12/21/2018	5,000,000.00	5,045,150.00	4,964,048.37	1.850	
Unilever		03/01/2019	5,000,000.00	5,050,250.00	4,982,967.92	2.200	
US Bank NA Cincinnati		02/21/2020	2,000,000.00	2,106,880.00	2,059,220.16	3.400	AA
US Bank NA Cincinnati		04/30/2021	3,809,000.00	3,990,346.49	4,003,400.29	2.400	
Subtotal and Average	42,119,807.00		41,684,000.00	42,815,951.49	42,114,089.00		

Per the investment policy statement and government code, only investments in A-rated and above issuers are allowable. This, combined with other important factors when choosing a particular investment such as industry outlook, no negative watch, reasonable or no "make-whole" call, etc.), results in only a handful of issuers to select from when investing in corporate bonds.

Potential scenarios for \$5MM Chevron bond as of 10/28/21:

1. Hold the Chevron bond and let it mature in June, 2023. Net profit when bond matures in June, 2023 is approximately **\$212,000**.
2. Sell the Chevron bond now and net approximately \$120,000. Reinvest the \$120,000 in an 18-month US Treasury at approximately .36%. This will provide an additional \$32,000 in income. So the total amount we would receive by June, 2023 (approx. 18-19 months from today) is $\$120,000 + \$32,000 = \$152,000$. This is **\$60,000 less** than if we were to just hold the Chevron bond to maturity.
3. Sell the Chevron bond now and net approximately \$120,000. Reinvest the \$120,000 gain in another 18-month corporate bond at around .50%. The additional income will be \$42,000. The total amount we would receive by June, 2023 would be $\$120,000 + \$42,000 = \$162,000$. This is still **\$50,000 less** than if we were to just hold the Chevron bond to maturity.
4. This last option just to note is not apples to apples like the other options: Sell Chevron and take the \$120,000 gain and put into a 5-year US Agency at around 1%. Net gain is \$200,000. This is still **less than** the \$212,000 net gain if we just held the Chevron to maturity in the first option. Even though we do not give up as much as the other options, were putting on **significant additional duration** as opposed to options #2 and #3. So it is not a "something for nothing" trade. This option mitigates the loss of potential income, but to do so we have to go out 5 years vs. the current 18 months, and if rates continue to go up, we will be **locked in at a less-than-market rate for 5 years**.

Corporate issuers and connections to fossil fuels:

Most corporate issuers have some connection to, and reliance on, fossil fuels. Just as an example, following is relevant information regarding issuers whose bonds we currently hold:

Disney: While they are currently investigating various alternatives such as low carbon fuel sources, Disney currently uses fossil fuels to power their fleet of trucks, trams, shuttles, and cruise ships.

Fossil fuels are also utilized in the making/package of many Disney branded products sold across hundreds of categories from books to figurines, games, apparel and more.

Home Depot: Fossil fuels are used in Home Depot operations relating to combustible sources and refrigerants, as well as indirect emissions from purchasing electricity to power the company's operations.

IBM: In 2020, 40% of the electricity consumed across IBM's global operations came from the use of fossil fuels. The other 60% was from renewables.

PepsiCo: Pepsi purchases packaging from plastic manufactures that require the use of fossil fuels.

Texas Instruments: TI does not state how they use fossil fuels directly on their website however, the production of their products require the manufacturing and purchasing of plastics, which are made from chemicals sourced from fossil fuels.

Unilever: While the company has long term plans to move away from the use of fossil fuels, currently the chemicals used in Unilever's cleaning and laundry products make up the greatest proportion of their carbon footprint (46%).

Apple: While Apple has developed a 2030 carbon-neutral plan, manufacturing today still requires the use of fossil fuels.

Chevron: Production and exploration currently requires the use of fossil fuels, though Chevron has outlined a plan to expand renewable natural gas production in the future.

US Bank NA Cincinnati – Provides lending to companies that use fossil fuels.

I hope this information proves helpful.

Best regards,

Alisa Backstrom, MBA, CCMT, CPFIM

City Treasurer

City of Huntington Beach

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