

**Meeting of the
Yolo County Financial Oversight Committee
November 14, 2024
10:00 a.m.**

NOTE: This meeting is being agendized pursuant to Teleconference Rules of the Brown Act. Members must attend a physical location listed below, or participation will be limited to members of the public. The locations available for teleconferencing participation are listed below:

Physical Locations for Member Participation:

Location 1: County Administrator’s Conference Room (2nd Floor)
625 Court Street, Woodland, CA

Teleconferencing Link:

Join Zoom Meeting
<https://yolocounty.zoom.us/j/81397954353?pwd=VVYwL1IEV0YzSHFXZk1kVlJrREZwQT09&from=addon>
Meeting ID: 813 9795 4353

Committee Members:

Mary Vixie Sandy, Chair	(Board of Supervisors - Voting)
Jim Provenza	(Board of Supervisors – Voting)
Larry Raber, Vice Chair	(Public Member – Voting)
Richard Horan	(Public Member- Voting)
Veronica Coronado	(County Superintendent of Education - Voting)
Kimberly McKinney	(Cities Member – Voting)
Kristin Sicke	(Special District Member – Voting)
Dirk Brazil	(Interim County Administrator – Non-voting)
Tom Haynes	(Chief Financial Officer – Non-voting)

Times below included in the agenda are the best estimates of County staff when the agenda item may be taken up and items may be taken up earlier than the times listed.

Call to Order at 10:00 (5 minutes)

- 1. Welcome and new staff changes**
- 2. Roll Call**
- 3. Approval of Agenda**
- 4. Follow-up of items from prior meeting**
- 5. Public Comment**

This item is reserved for persons wishing to address the Committee on any related matters that are not otherwise on this meeting agenda. Public comments on matters listed on the agenda shall be heard at the time the matter is called. As with all public comment, members of the public who wish to address the Committee are customarily limited to 3 minutes per speaker, but an extension can be provided at the discretion of the chair.

CONSENT AGENDA (5 minutes)

6. Approval of the prior meeting minutes for 9/12/2024.
7. Receive Treasury Cash Count for quarter ended 9/30/2024.
8. Receive Auditor's Report on Treasury Investment Summary for quarter ended 6/30/2024.
9. Review and Approve the 2024 Investment Policy.

REGULAR AGENDA

10. Receive update from the Internal Audit Manager on the Division of Internal Audit and Ongoing Audits. (Lugo). 5 minutes
11. Receive status update of the Annual Comprehensive Financial Report (ACFR) for 6/30/2024 from the External Auditors. (LSL/Mapile). 5 minutes
12. Receive staff update on the 2023-24 year-end budget variance report (Liddicoet). 10 minutes
13. Receive report on the Treasury Pool Investment Activity for the quarter ending September 30, 2024 (PFM/Morales). 20 minutes
14. Receive update on Socially Responsible Investment strategies and consider recommendation to Board of Supervisors on whether to pursue additional research and analysis (Haynes/PFM). 30 minutes
15. Approve next FOC meeting for February 13, 2025. 5 minutes
16. Committee Member and Staff Announcements. 5 minutes Action items and reports from members of the Committee, including announcements, questions to be referred to staff, future agenda items, and reports on meetings and information which would be of interest to the Committee or the public.

Adjournment (Approximately 11:30 am.). Public records that relate to any item on the open session agenda for a regular meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Committee. Public records are available for inspection by contacting Tom Haynes, Chief Financial Officer, at 530-666-8162 or tom.haynes@yolocounty.org and meeting materials can be inspected at County offices located at 625 Court Street, Woodland, CA 95695; those interested in inspecting these materials are asked to call 530-666-8162 to make arrangements. The documents are also available on the County of Yolo Financial Oversight Committee website located at: <https://www.yolocounty.org/government/general-government-departments/financial-services/financial-oversight-committee>.

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation to participate in this meeting, or who have a disability and wish to request an alternative format for the meeting materials, should contact Tom Haynes, Chief Financial Officer at least two (2) working days before the meeting at 530-666-8162 or tom.haynes@yolocounty.org.

If you have anything that you wish to be distributed to the Committee and included in the official record, please hand it to a member of County staff who will distribute the information to the members and other staff.

YOLO COUNTY FINANCIAL OVERSIGHT COMMITTEE

MINUTES OF MEETING

September 12, 2024

Members present: Mary Vixie Sandy, Chair (Supervisor), Jim Provenza (Supervisor), Veronica Coronado (County Superintendent of Education), Kristin Sicke (Special District), Tom Haynes (Chief Financial Officer – Non-voting), Mark Bryan (Deputy CAO representing CAO Gerardo Pinedo – Non-Voting) Larry Raber and Rich Horan, Public members,

Others present: Evis Morales (Deputy CFO), Allison Kaune and Michael Kronbetter (PFM), Brandon Young (LSL), Nathan Lugo (Internal Audit), Noemy Mora-Beltran (Internal Audit), Bowen Au-Young (AP/Property Tax), Laura Liddicoet (Budget), Julieta Mapile (Accounting) Zaid Arroyos (Intern BOS District 4) Katie Careres (Intern BOS District 4) Scott Steward (Member of the Public)

Moderator: Debra Nichols

Recorded by: Marcella Mendoza

- 1) **Welcome and new staff changes.** Tom Haynes introduced Marcella Mendoza, the new Office Support Specialist in the Department of Financial Services. Sou Xiong, Treasury and Tax Collection Manager for the Department of Financial Services, left the County. Evis Morales, Deputy CFO of the Department of Financial Services, will temporarily be overseeing the Treasury and Tax Collection division his place.
- 2) **Call to Order.** Supervisor Sandy called the meeting to order promptly at 10:00 a.m. with members Tom Haynes, Larry Raber, Veronica Coronado, and Kristin Sicke in attendance in person. Quorum was formed.
- 3) **Approval of Agenda.**

 Item #3 MOVED BY: Jim Provenza / SECONDED BY: Kristin Sicke
 AYES: 4
 NOES: 0
 ABSTAIN: 1
 ABSENT: 1
- 4) **Follow-up of items from prior meeting.** Tom Haynes had no items to follow up on from prior meeting.
- 5) **Public Comment.** 1 public comment to be taken up on item #12.

Consent Agenda

- 6) **Approval of the prior meeting minutes for 6/13/2024.** Minutes were approved
#6 MOVED BY: Veronica Coronado / SECONDED BY: Jim Provenza
- AYES: 4
NOES: 0
ABSTAIN: 1
ABSENT: 1
- 7) **Receive Treasury Cash Count Audit Report from the Treasury for quarter ended 6/30/24.**
Report Received
- 8) **Receive update from the Internal Audit Manager on the division of internal Audit and Ongoing Audits (Lugo).** Nathan Lugo, Yolo County’s Internal Audit Manager, gave the report.
- The revised 24-25 Audit plan will be presented to the Audit Sub Committee, Internal Audit hopes to have that approved.
 - Internal Audit department will be removed from DFS’s budget following the adoption of the final budget in September 2024.
 - Internal Audit is working with Yolo County HR to develop Whistle Blower Hotline, currently 10 cases that will be handled by HR Director once established.
 - Internal Audit requested all County departments update and present Corrective Action plans, currently working on making sure all departments are up to date.
 - There are two vacancies currently open, Auditor III, Staffing and Resources, Internal Audit hopes to have them filled by the fall.
 - HHSA contract monitoring had eight Audits completed by outside Agencies, the findings did not note significant risk and are being tracked. A Payroll processing Audit has been put on hold until the new HR Director has been onboarded to work collaboratively with the new Director.
 - Property tax rate calculation was reviewed, updates and recommendations will be applied on the 24-25 Fiscal Audit plan.
 - Proposition 218 Election Recount for Wild Wings, hope to have findings for review in November.
- 9) **Receive status update of interim audit work on the Annual Comprehensive Financial Report (ACFR) for 6/30/2024 from the External Auditors. (LSL/Mapile).** Brandon Young with LSL shared that the audit is moving forward, scheduled to end in November as it has historically. No delays are expected as of now.
- 10) **Receive staff update on the status of the 2024-25 budget development process (Liddicoet).**
- The Adoptive Budget Hearing is scheduled for 9/24/24
 - The adoptive budget is balanced, although one-time solutions had to be enacted
 - Fortunately, no reductions to programs, operations or staffing are expected
 - A conservative approach will be taken for the 2024-2025 Fiscal Year, as Inflation continues to impact all costs

11) Receive report on the Treasury Pool Investment Activity for the quarter ending June 30,2024. (PFM/Morales)

Chris Harris with PFM gave a presentation.

- CPI has hit its lowest level since 2021
- Treasury yields moved higher as market evolved to revised Fed Expectations.
- Tom Haynes reported that DFS is working with PFM on a strategy to move money out of the CAMP account into the managed portfolio to take advantage of the high interest rates.

12) Receive presentation on Socially Responsible Investment strategies and consider recommendation to Board of Supervisors on whether to pursue additional research and analysis (Haynes).

Due to several emails from the community requesting the Board of Supervisors divest from companies that are currently operating in Gaza that have been identified by the United Nations for potentially being complicit in human rights violations, the issue was referred to the FOC. This request falls into a broader category referred to as Socially Responsible Investing or ESG (Environmental, Social, Governance) investing.

Scott Stewart from Davis introduced himself as a member of the public to discuss the Socially Responsible Investment Strategy Policy. Scott expressed that any SRI policy should be comprehensive and objective in order to avoid debates of what and when to divest.

PFM is due to share a report during our next meeting on potential approaches to creating a Socially Responsible Investment Policy.

13) Committee Member and Staff Announcements.

There were no Committee member or Staff Announcements.

Adjournment. Meeting Adjourned at 11:47 a.m.



COUNTY OF YOLO
CALIFORNIA

Division of Internal Audit
Nathan Lugo, Internal Audit Manager

October 23, 2024

Evis Morales, Deputy Chief Financial Officer
Department of Financial Services
County of Yolo
625 Court Street, Room 102
Woodland, CA 95695

Re: Treasury Cash Count quarterly report for September 30, 2024

Dear Mr. Morales:

We have performed the procedures as agreed upon in our engagement to assist the County with respect to compliance with Government Code Section 26920 (a) (1) for the quarter ending September 30, 2024. The County's Treasurer is responsible for compliance with the above noted Government Code section. The agreed upon procedures engagement was performed in accordance with the Generally Accepted Government Auditing Standards (GAGAS). In regards to auditor's independence, the Division of Internal Audit reports administratively to the Clerk of the Board's Office, but functionally to the Board of Supervisors. The sufficiency of these procedures is solely the responsibility of the specified user of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Further, we did not review system controls of the county financial system.

Our procedures and results are as follows:

1. Observe and certify the treasury staff cash count and verify that the coin and cash bags are properly sealed.

Results: Procedure performed with no exceptions.

Considerations: None.

2. Vouch the deposit slips prepared for the coin and cash bags to the bank statement.

Results: Procedure performed with no exceptions.

Considerations: None.

We were not engaged to, and did not; conduct an audit, the object of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such as opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is prepared for use by the Treasury management, Department of Financial Services and Yolo County Board of Supervisors. However, it may be distributed to other interested parties.

We appreciate the timely and professional responses provided by the Treasury management and staff to our requests for information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nathan Lugo', with a stylized flourish at the end.

Nathan Lugo, CPA, CIA, CFE
Internal Audit Manager

cc: Tom Haynes, Chief Financial Officer
Dirk Brazil, Interim County Administrator
Yolo County Audit Sub-Committee
Internal Audit Website
Audit File



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Supervisors and Financial Oversight Committee
County of Yolo, California

We have performed the procedures enumerated below on the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments of the County of Yolo, California (County) for the quarter ended June 30, 2024. The County is responsible for the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments for the quarter ended June 30, 2024.

The County has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating the County investments in accordance with County policy and *Government Code* for the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments for the quarter ended June 30, 2024. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Scope of the Procedures Performed and Related Findings

The procedures and the associated findings are as follows:

- 1) Counted the cash in the Treasury as of June 30, 2024.

Finding: This procedure was performed by the County of Yolo Internal Audit Division. We inspected workpapers of the County of Yolo Internal Audit Division over the Treasury cash count, noting the cash count procedures were performed.

- 2) Verified that the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments and the records of the County of Yolo Auditor are reconciled as of June 30, 2024, pursuant to *Government Code Section 26905*.

Finding: No findings were noted as a result of applying this procedure.

- 3) Reconciled the investments included in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2024, to the statements provided by the related financial institutions.

Finding: No findings were noted as a result of applying this procedure.

- 4) We compared the investments listed in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2024, to the types of investments authorized by the County's Investment Policy and *Government Code Section 53601*.

Finding: No findings were noted as a result of applying this procedure.



Board of Supervisors and Financial Oversight Committee
County of Yolo, California

- 5) We compared the market value of the investments listed in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2024, to the statements provided by the related financial institutions. We identified all variances in excess of 0.5% and \$10,000 of the financial institution amount. For the variances above the scope, we received variance explanations from the County Treasury staff to identify whether variances are routine or nonroutine.

Finding: Variances in excess of 0.5 percent and \$10,000 of the financial institution amount are summarized in **Attachment A**. The County Treasury staff considers these variances to be routine.

- 6) We read the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments to ascertain if it contained the information/data required by *Government Code Section 53646* and met the timing requirements of *Government Code Section 53646* and the County's Investments Policy, as follows:
- a) Was submitted within 45 days following the end of the quarter.
 - b) Included type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments, and monies held by the County.
 - c) Included those funds under management of contracted parties (fiscal agents, trustees, deferred compensation administrators, etc.).
 - d) Included market value (and source) as of the date of the report of all securities held by the County or under management of any outside party.
 - e) Stated compliance of the portfolio to the Investment Policy of the County.
 - f) Included a statement addressing the ability of the County to meet the pool's expenditure requirements for the next six months.

Finding: No findings were noted as a result of applying this procedure.

- 7) We compared the investments listed in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2024, to the prohibited investments listed in *Government Code Section 53601.6*.

Finding: No findings were noted as a result of applying this procedure.

We were engaged by the County of Yolo, California, to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments of the County of Yolo, California for the quarter ended June 30, 2024. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the County of Yolo, California, and the meet our ethical responsibilities, in accordance with the relevant technical requirements related to our agreed-upon procedures engagement.

The report is intended solely for the information and use of the Board of Supervisors, the Financial Oversight Committee, and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lance, Solt & Luykhard, LLP".

Sacramento, California
November 4, 2024

County of Yolo, California
Investment Summary for the Treasurer's Pooled and Non-Pooled Investments
Agreed-Upon Procedures Report
Quarter Ended June 30, 2024
Attachment A
Procedure 5 Results - Market Value Comparison

Description	CUSIP	County Investment Summary	Financial Institution Statements	Variance	
				\$	%
<i>Bank of New York Mellon - Yolo County Treasury Pool FHMS KJ46 A1</i>	3137HAD45	\$ 3,702,114	\$ 3,682,597	\$ 19,517	0.53%
<i>Bank of New York Mellon - Yolo County Treasury Pool FHMS KJ47 A1</i>	3137HAMN3	\$ 2,579,496	\$ 2,565,154	\$ 14,342	0.56%
<i>Bank of New York Mellon - Yolo County Treasury Pool COOPERAT RABOBANK UA/NY CERT DEPOS</i>	21684LGS5	\$ 4,483,278	\$ 4,553,078	\$ (69,800)	-1.53%
<i>Bank of New York Mellon - Landfill Closure Trust Fund TSY INFL IX N/B</i>	91282CGK1	\$ 2,155,250	\$ 2,272,249	\$ (116,999)	-5.15%

County of Yolo Administrative Policies and Procedures Manual

TITLE: Investment Policy

Department: Financial Services

TYPE: POLICY

DATE: December 53, 20232024

A. PURPOSE

This document is known as the annual investment policy and represents the policies of the Board of Supervisors of the County of Yolo related to the investment of funds under the control of the Chief Financial Officer. The office of the Auditor-Controller and the Treasurer-Tax Collector have been consolidated. All statutory duties, responsibilities, and budgets of the Auditor-Controller and Treasurer-Tax Collector are consolidated into the office known as the Chief Financial Officer as per Yolo County code section 2-5.113 effective January 5, 2015.

The Department of Financial Services was established to consolidate and perform all functions of the offices of the Auditor, Controller, Tax Collector, and Treasurer, and any other county-wide fiscal functions directed by the board as per county code sec. 2-5.2001.

This policy is prepared annually by the Chief Financial Officer in accordance with the California Government Code and prudent asset management principles. Pursuant to Government Code sections 27133 and 53646 this policy has been reviewed by the Financial Oversight Committee and approved by the Board of Supervisors at a public meeting.

B. APPLICABILITY

This policy will cover the period of January 1, 2024-2025 through December 31, 20242025.

This policy applies to the cash management and investment activities performed by County personnel and officials for any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool. The terms "County" and "county treasury pool" are used interchangeably and include all such funds so invested.

The investment of bond proceeds will be governed by the provisions of relevant bond and related legal documents.

The investment of endowment funds will be governed by the underlying laws, regulations, and specific governmental approvals under those laws pursuant to which the endowments were created. Endowment fund investments will primarily focus on the preservation of principal and use of investment income for operational purpose.

The investment of the Section 115 Trusts related to OPEB and Pension will be invested in compliance with the County Policies on "Accounting, Funding and Recovery of OPEB Costs" and the "Pension Funding Policy" and legal documents associated with the Section 115 Trusts.

County of Yolo Administrative Policies and Procedures Manual

C. STANDARD OF CARE

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 standard of prudence to be used by investment officials shall be the "prudent investor" standard which states that "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

This standard shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

D. PUBLIC TRUST

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the County's ability to govern effectively.

E. OBJECTIVES

The primary objectives, in descending priority order, of the investment activities of the County shall be:

1. **Safety**. Safety of principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
2. **Liquidity**. The investment portfolio shall be maintained in such a manner as to provide sufficient liquidity to meet the operating requirements of any of the participants.
3. **Return on Investment**. The investment portfolio of the County shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and liquidity considerations.

F. DELEGATION OF AUTHORITY

Subject to Section 53607 the authority of the Board of Supervisors to invest or to reinvest funds of the pooled investments, or to sell or exchange securities so purchased, may be delegated for a one-year period by ordinance in accordance with Government Code Sections 27000.1 and 27000.3.

The Board of Supervisors has designated the Chief Financial Officer as its agent authorized to make investment decisions after considering the strategy proposed by the investment advisor.

County of Yolo Administrative Policies and Procedures Manual

G. ETHICS AND CONFLICT OF INTEREST

Individuals performing the investment function and members of the Financial Oversight Committee (FOC) shall maintain the highest standards of conduct.

County Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. These individuals should follow the Code of Ethics for Procurement approved by the Board of Supervisors and comply with all relevant provisions of the Political Reform Act, especially the requirements of Chapter 7 – Conflict of Interest and Chapter 9.5 – Ethics. The key requirements are listed below:

1. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could affect their ability to make impartial decisions.
2. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.
3. Officers and employees shall not accept gifts or gratuities with a value exceeding \$500 in any one year from any bank, broker, dealer, or any other person, firm, or organization who conducts business with the Department of Financial Services.
4. No person with investment decision-making authority in the County Administrator's office or the Department of Financial Services may serve on the board of directors or any committee appointed by the board or the credit committee or supervisory committee of a state or federal credit union which is a depository for County funds.

The Financial Oversight Committee Charter includes the following requirements for members of the committee:

1. A member shall disclose to the committee at a regular meeting any activities that directly or indirectly raised money for a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the committee. For purposes of this subsection, raising money includes soliciting, receiving, or controlling campaign funds of a candidate, but not the member's individual campaign contributions or non-financial support. This section does not apply to a member raising money for his or her own campaign.
2. A member shall disclose to the Committee at a regular meeting any contributions, in the previous three years or during the period that the employee is a member of the committee, by an employer to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the County Treasury.
3. A member cannot secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, financial services firms, financial institutions, and municipal advisors with whom the County is doing business during the member's Financial Oversight Committee membership period or for one year after leaving the Financial Oversight Committee. This subsection only applies to employment or soliciting employment, and not other relationships with such companies with whom the County is doing business.

County of Yolo Administrative Policies and Procedures Manual

4. A member shall disclose to the Committee any honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons who conduct business with the Department of Financial Services while a member of the Committee. All members shall also comply with the requirements of the Political Reform Act or any other law or regulation regarding to receipt and disclosure of financial benefits and conflicts.

H. INTERNAL CONTROLS

Internal control procedures shall be established and maintained by the Department of Financial Services that provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, misuse, or mismanagement. The internal controls shall be reviewed as part of the regular annual independent audit. The controls and procedures shall be designed to prevent employee error, misrepresentations by third parties, and imprudent or illegal actions by employees or officers of the County.

I. CASH MANAGEMENT

In determining the amount that can be invested County personnel shall take into account the liquidity needs of the County and the agencies in the Treasury pool, and shall take reasonable steps to ensure that cash flow requirements of the County and pool participants are met for the next six months, barring unforeseen actions from the State Controller or other funding sources, such as deferral of cash payments.

County personnel shall maintain separate accounting for cash funds and monitor aggregate cash balances of the County and each agency in the Treasury pool, and shall notify the County Administrator or agency management of unhealthy trends in aggregate cash balances. Unhealthy trends may include but are not limited to deferral of cash payments from State, Federal grantors, or other funding sources, significant declines in available aggregate cash balances, or near-deficit aggregate balances. Agencies that are so notified are expected to take immediate action to cure any deficit and improve cash balances. Continuing deficits shall be reported to the Board of Supervisors for further action.

The Chief Financial Officer shall provide quarterly reports on total cash flows and balances of the Treasury Pool to the Financial Oversight Committee.

J. AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS

The County may secure the services of an Investment Advisor. Precautionary contractual language with such an adviser shall include: delivery versus payment methods, third-party custody arrangements, prohibitions against self-dealings, independent audits, and other appropriate internal control measures as deemed necessary by the Chief Financial Officer.

The County or the County's Investment Advisor shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment transaction purposes, and it shall be the policy of the County to purchase securities only from those authorized institutions or firms. Authorized brokers/dealers must either (i) be classified as Reporting Dealers affiliated with the New York Federal Reserve Bank as Primary Dealers or (ii) be registered to conduct business in the State of California and be licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code.

No broker/dealer shall be selected which has within any consecutive 48-month period made a political contribution to any member of the Board of Supervisors or to any candidate for these offices in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.

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K. PERMITTED INVESTMENT INSTRUMENTS

1. United States Treasury Obligations. Government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. Federal Agency Obligations. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. California Municipal Obligations. Obligations of the State of California, this local agency or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state, this local agency or any local agency or by a department, board, agency or authority of the state or any local agency that is rated in a rating category of "A" long term or "A-1" short term, the equivalent or higher by a nationally recognized statistical rating organization (NRSRO). Any investment in obligations of this local agency shall be in a ratio proportionate to the County's share of the pooled investments.
4. Other 49 State Municipal Securities. Registered treasury notes or bonds issued by any of the other 49 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state that is rated in a rating category of "A" long term or "A-1" short term, the equivalent or higher by a NRSRO.
5. Repurchase Agreements. Agreements to be used solely as short-term investments not to exceed 90 days.

The County may enter into Repurchase Agreements with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described above in (K)(1) and (K)(2), will be acceptable collateral.

All securities underlying Repurchase Agreements must be delivered to the County's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed, 102 percent of the total dollar value of the money invested by the County for the term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed at least weekly.

Market value must be calculated each time there is a substitution of collateral.

The County or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The County will have properly executed a Public Securities Association (PSA) agreement with each counter party with which it enters into Repurchase Agreements.

6. Banker's Acceptances. Issued by domestic or foreign banks, the short-term paper of which is rated in the highest category by a nationally recognized statistical rating organization (NRSRO).

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Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the County's investment portfolio.

7. Commercial Paper. Of prime quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions shown in either paragraph (A) or paragraph (B):
 - a. The entity meets the following criteria:
 - i. Is organized and operating in the United States as a general corporation.
 - ii. Has total assets in excess of five hundred million dollars (\$500,000,000).
 - iii. Has debt other than commercial paper, if any, that is rated in a rating category of "A", the equivalent or higher by a nationally recognized statistical-rating organization (NRSRO).
 - b. The entity meets the following criteria:
 - i. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - ii. Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
 - iii. Has commercial paper that is rated in a rating category "A-1", the equivalent or higher by a nationally recognized statistical-rating organization (NRSRO).

Purchases of eligible commercial paper may not exceed 270 days maturity. No more than 40 percent of the County's investment portfolio may be invested in eligible commercial paper.

8. Medium-Term Corporate Notes. Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "A", the equivalent or higher by a nationally recognized statistical rating organization (NRSRO) and shall have a maximum remaining maturity of five years or less. Purchase of medium-term corporate notes may not exceed 30 percent of the County's investment portfolio.
9. Non-Negotiable Certificates of Deposit. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code Section 53651, either at 150% by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section (m) or at 110% by eligible marketable securities listed in subsections (a) through (l) and (n) and (o). The County, at its discretion and by majority vote of the Board of Supervisors, on a quarterly basis, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance. Alternatively, the County may invest in deposits, including certificates of deposit, at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit as provided for in Government Code section 53635.8.

10. Negotiable Certificates of Deposit. Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a federally-licensed or a state-licensed branch of a foreign bank that is rated in a rating category of "A" long-term or "A-1" short-term, the equivalent or higher by a nationally recognized statistical rating organization (NRSRO). Purchases of all negotiable certificates of deposit may not exceed 30 percent of the County's investment portfolio.
11. Local Government Investment Pools. (Either state-administered or through joint powers statutes and other intergovernmental agreement legislation.) Investments may be maximized to the level allowed by the State and should be reviewed periodically. Investment objectives, limitations, and controls of each pool must be consistent with this policy.
12. Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the largest nationally recognized statistical rating organizations or (2) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of \$500,000,000. Money Market Funds shall not exceed 20 percent of the investment portfolio of the County as recorded at purchase price on date of purchase.
13. Asset-Backed Securities. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. For securities eligible for investment under this subdivision not issued or guaranteed by an agency or issuer identified in subdivision (1) or (2), the following limitations apply: Eligible securities must be rated, by a nationally recognized statistical rating organization, as "AAA", and have a maximum remaining maturity of five years or less. No more than 20 percent of the County's investment portfolio may be invested in this type of security.
14. Reverse Repurchase Agreements. Reverse repurchase agreements shall be used primarily as a cash flow management tool and subject to all the following conditions
 - a. The security to be sold using a reverse repurchase agreement has been owned and fully paid for by the County for a minimum of 30 days prior to sale.
 - b. The total of all reverse repurchase agreements on investments owned by the County does not exceed 20 percent of the base value of the portfolio. The base value of the County's portfolio for this section is defined as that dollar amount obtained by totaling all cash balances placed in the portfolio by all participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.
 - c. The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.

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- d. Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement, unless the reverse repurchase agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
 - e. Investments in reverse repurchase agreements or similar investments in which the County sells securities prior to purchase with a simultaneous agreement to repurchase the security shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency. A significant banking relationship is defined by any of the following activities of a bank:
 - i. Involvement in the creation, sale, purchase, or retirement of the County's bonds, warrants, notes, or other evidence of indebtedness.
 - ii. Financing of the County's activities.
 - iii. Acceptance of the County's securities or funds as deposits.
15. Supranationals. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA", the equivalent or higher by a NRSRO. Purchases of these securities shall not exceed 30 percent of the County's portfolio.

The Chief Financial Officer may make permitted investments (as described above) pursuant to the California Government Code (including Section 53601 et. seq.) or deposit funds for safekeeping in state or national banks, savings association, credit unions, or federal insured industrial loan companies (as described in Section 53635.2). For purposes of compliance with this policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.

Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. Should a security owned by the County be downgraded below "A" the Investment Advisor shall immediately notify the Chief Financial Officer who will report to the Board of Supervisors, at their next regularly scheduled meeting, the circumstances of the downgrade and any action taken or recommended.

L. INELIGIBLE INVESTMENTS

The County shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

Effective January 1, 2021, the County may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. The County may hold these instruments until their maturity dates. Securities described in this paragraph shall remain in effect only until January 1, 2026, and as of that date is repealed.

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Any other security not specifically permitted by Section K is prohibited.

M. MAXIMUM MATURITY

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the County to meet all projected obligations.

Where this policy does not specify a limitation on the term or remaining maturity at the time of the investment, or unless authorized by the Board of Supervisors no less than three months prior to the investment, no investment shall be made in any security, other than a security underlying a repurchase agreement as authorized by this policy that at the time of the investment has a term remaining to maturity in excess of five years.

The Board of Supervisors has specifically approved investment maturities beyond five years for certain three long-term portfolios: Yolo County Landfill Closure Trust Fund, the Yolo County Cache Creek Maintenance and Remediation Fund, and the Demeter Endowment (funds deallocated from the Ceres Tobacco Endowment Fund).

N. DIVERSIFICATION & PERCENTAGE LIMITATIONS

The County shall limit the County's investments in any one issuer to no more than 5 percent of the County's total investments at the time of purchase, except for U.S. Treasuries, Federal Agencies, Supranationals, repurchase and reverse repurchase agreements, and pooled investments such as local government investment pools, LAIF, and money market funds

All percentage limitations apply at the time of the investment (purchase date).

O. REPORTING REQUIREMENTS

The Chief Financial Officer shall render a quarterly investment report to the Board of Supervisors that includes, at a minimum, the following information for each investment:

- Type of investment instrument (e.g., U.S. Treasury note, Federal Agency note)
- Issuer name (e.g., General Electric Capital Corp.)
- Credit quality
- Purchase date
- Maturity date
- Par value
- Purchase price
- Current market value and the source of the valuation
- Current amortized or book value
- Accrued interest
- Original yield to maturity
- Overall portfolio yield based on cost
- New investment transactions

The quarterly report shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the County's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement explaining the ability of the County to meet its cash flows

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requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This quarterly report shall be available within 45 days following the end of the quarter and submitted to the Board of Supervisors at the earliest reasonable opportunity, with copies published and available to all pool participants.

P. ANNUAL REVIEW OF INVESTMENT POLICY

The Chief Financial Officer shall annually prepare an investment policy that will be reviewed by the County Financial Oversight Committee and submitted to the Board of Supervisors for approval in a public meeting. Any change to the investment policy shall be reviewed and approved by the Board in a public meeting.

Q. SAFEKEEPING AND CUSTODY

All securities, whether negotiable, bearer, registered or non-registered shall be delivered either by book entry or physical delivery to the County's third-party custodian.

Monthly safekeeping statements are received from custodians where securities are held. Authorized personnel, other than the person handling daily investments, shall review the statements to confirm that investment transactions have settled and been delivered to the County's third-party custodian.

R. APPORTIONMENT OF EARNINGS AND COSTS

The manner of calculating and apportioning the cost of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds is as follows:

Investment earnings shall be apportioned to all pool participants quarterly based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the investment pool. Earnings are computed on an accrual basis and the effective date that earnings are deposited into each fund is the first day of the following quarter (January 1, April 1, July 1, and October 1).

Direct and Administrative (including indirect) costs associated with investing, depositing, banking, auditing, reporting, safekeeping, or otherwise handling or managing funds shall be netted against any moneys received pursuant to state mandated reimbursements and deducted from the gross investment earnings in the quarter received.

S. CRITERIA FOR CONSIDERING REQUEST TO WITHDRAW FUNDS

Withdrawal of funds from County Treasurer Pool may occur pursuant to Government Code Section 27136 and approval of the Board of Supervisors.

Assessment of the effect of a proposed withdrawal on the stability and predictability of the investment in the County Pool will be based on the following criteria:

- Size of withdrawal
- Size of remaining balances of:
 - Pool
 - Agency
- Current market conditions

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- Duration of withdrawal
- Effect on predicted cash flows
- A determination if there will be sufficient balances remaining to cover costs
- Proof that adequate information has been supplied in order to make a proper finding that other pool participants will not be adversely affected.

The Chief Financial Officer reserves the right to mark a fund balance to market value prior to allowing a withdrawal if it is deemed necessary to be equitable to the remaining funds.

T. **TERMS AND CONDITIONS FOR NON-STATUTORY COMBINED POOL PARTICIPANTS**

All entities qualifying under California Government Code Section 27133 (g) may deposit funds for investment purposes providing all of the following has been accomplished: (1) the agency's administrative body has requested the privilege, (2) has agreed to terms and conditions of an investment agreement as prescribed by the County's Board of Supervisors, (3) has by resolution identified the authorized officer acting on behalf of the agency; and (4) the Chief Financial Officer has prescribed the appropriate accounting procedures.

U. **AUDIT**

1. **Annual Compliance Audit** - The Financial Oversight Committee is not designated a Treasury Oversight Committee however the FOC may cause an annual audit pursuant to Government Code section 27134 at its discretion which may include issues relating to the structure of the investment portfolio and risk. The costs of complying with this article shall be County charges and may be included with those charges enumerated under Section 27013.
2. **Quarterly Review and Annual Financial Audit** – The Chief Financial Officer shall cause quarterly reviews to be made of the Treasury Division records relative to the type and amount of assets in the treasury, pursuant to Government Code sections 26920 - 26923. The Chief Financial Officer shall also cause an annual financial audit to be made of the Treasury Division's records as of June 30. In addition to an opinion on the statement of assets held in the treasury this audit shall include a review of the adequacy of internal controls.

The annual compliance audit and the annual financial audit may be combined.

The Chief Financial Officer shall report audits that contain significant audit findings to the Audit Subcommittee of the Board of Supervisors immediately and to the full Board at the earliest reasonable opportunity. Copies of the audit reports shall be provided to the Financial Oversight Committee.

All audit recommendations shall be addressed timely and in a manner acceptable to the Board of Supervisors' Audit Subcommittee.

Portfolio Review

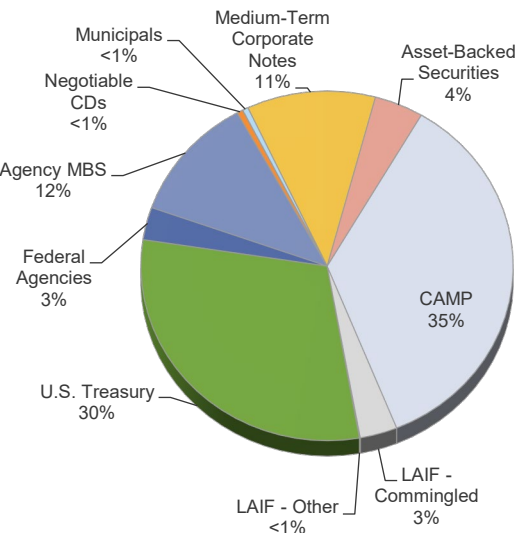
- The portfolio is in compliance with the California Government Code and the County’s Investment Policy.
- The portfolio is well diversified by sector, issuer, and maturity and is of high credit quality.
- The portfolio has sufficient liquidity to meet the County’s cash needs.
- The portfolio’s yield continues to benefit from higher interest rates and the portfolio’s yield at cost increased during the quarter.
- The County added \$50 million to the PFMAM-managed portfolio during the quarter; most of the new funds were utilized to purchase 5-year U.S. Treasuries.
- The portfolio’s diversification has increased over the past year, which has positioned the portfolio for strong income generation going forward.

The Economy

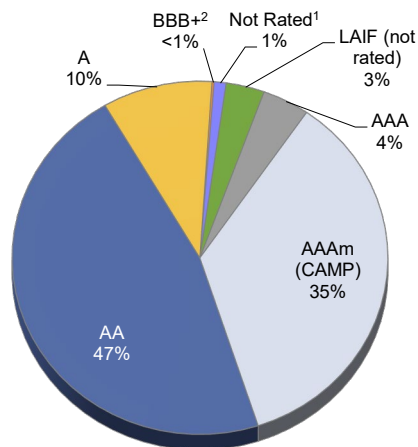
- Economic performance in the third quarter of 2024 continued to support a soft-landing outlook for the U.S. economy, underpinned by historically low unemployment, resilient consumer spending, record household wealth and a supportive Federal Reserve (Fed).
- Inflation continued to make progress towards the Fed’s 2% target, while the labor market cooled from its formerly overheated state.
- U.S. Real GDP growth ramped up in the second quarter, with the third and final estimate reporting growth of 3.0%, nearly double the rate of the previous quarter.
- The Fed cut the overnight policy rate by 50 basis points (0.50%) to a new target range of 4.75% to 5.00% at its September meeting, marking the first rate cut in over four years. Furthermore, the Fed’s updated “dot plot” implied an additional 50 basis points of rate cuts through the balance of 2024 and 100 basis points (1.00%) of cuts in 2025.

Portfolio Profile as of September 30, 2024^{1,2}

Sector Composition



Credit Quality

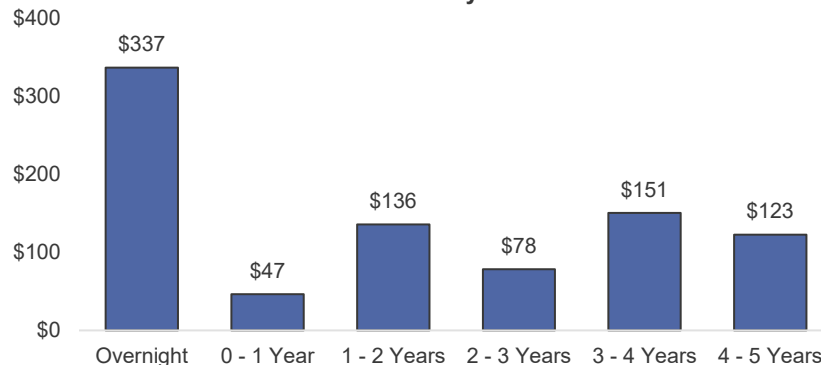


Portfolio Performance as of September 30, 2024³

	Quarter	Annualized Return 1 Year	Annualized Return 5 Years
Yolo County Total Return¹	3.28%	7.80%	1.49%
Treasury Benchmark Total Return	3.41%	7.66%	1.21%
Net Apportionment Rate	0.98%	-	-

Note: ¹PFMAM managed portfolio only.

Portfolio Maturity Distribution



1. Securities held in the County’s portfolio are in compliance with California Government Code and the County’s investment policy.

2. Ratings based on Standard & Poor’s.

3. The County’s benchmark is the ICE Bank of America (BoFA) 1-5 Year Gov/Corp A-AAA U.S. issuers as of 6/30/21. From 12/31/20 to 6/30/21 it was the ICE BoFA 1-5 Year U.S. Treasury Index. From 9/30/17 to 12/31/20 it was the ICE BoFA 0-5 Year U.S. Treasury Index. From 3/31/15 to 9/30/17 the benchmark was a blend of 30% ICE BoFA 3-month Treasury index and 70% ICE BoFA 1-3 year U.S. Treasury Index.

Yolo County

Investment Performance Review For the Quarter Ended September 30, 2024

November 14, 2024

Michael Kronbetter, Relationship Manager

pfmam.com

PFM Asset Management LLC

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Economic and Interest Rate Update



Third Quarter Market Themes



- ▶ The U.S. economy was characterized by:
 - ▶ A labor market that reached better balance and support consumer activity
 - ▶ Inflation that has made meaningful progress towards the Federal Reserve's (Fed) 2% target, although shelter costs remain a headwind
 - ▶ Resilient economic growth and consumer spending that support the 'soft landing' scenario



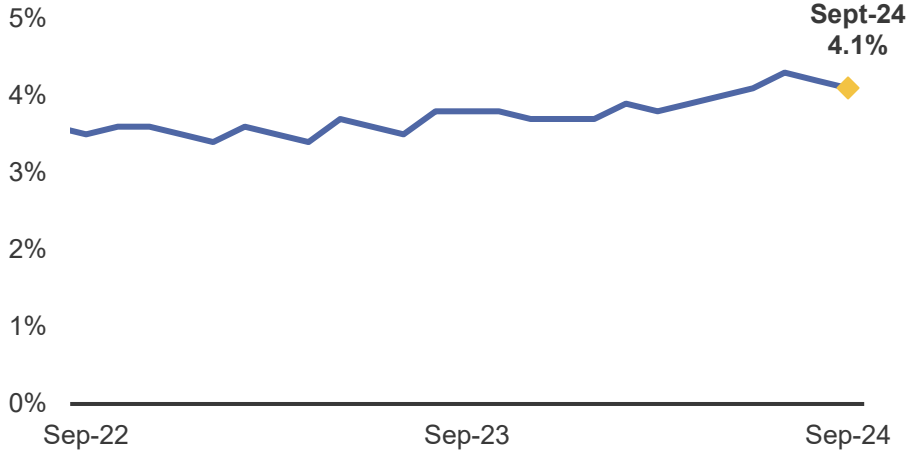
- ▶ Fed begins the easing cycle
 - ▶ The Fed cut the federal funds target rate by 50 basis points (bps) to 4.75% - 5.00% at its September FOMC meeting
 - ▶ Fed officials note they have gained greater confidence the risks to their dual mandate are "roughly" in balance
 - ▶ The Fed's September "dot plot" implies 50 bps of additional cuts in 2024 and 100 bps through 2025



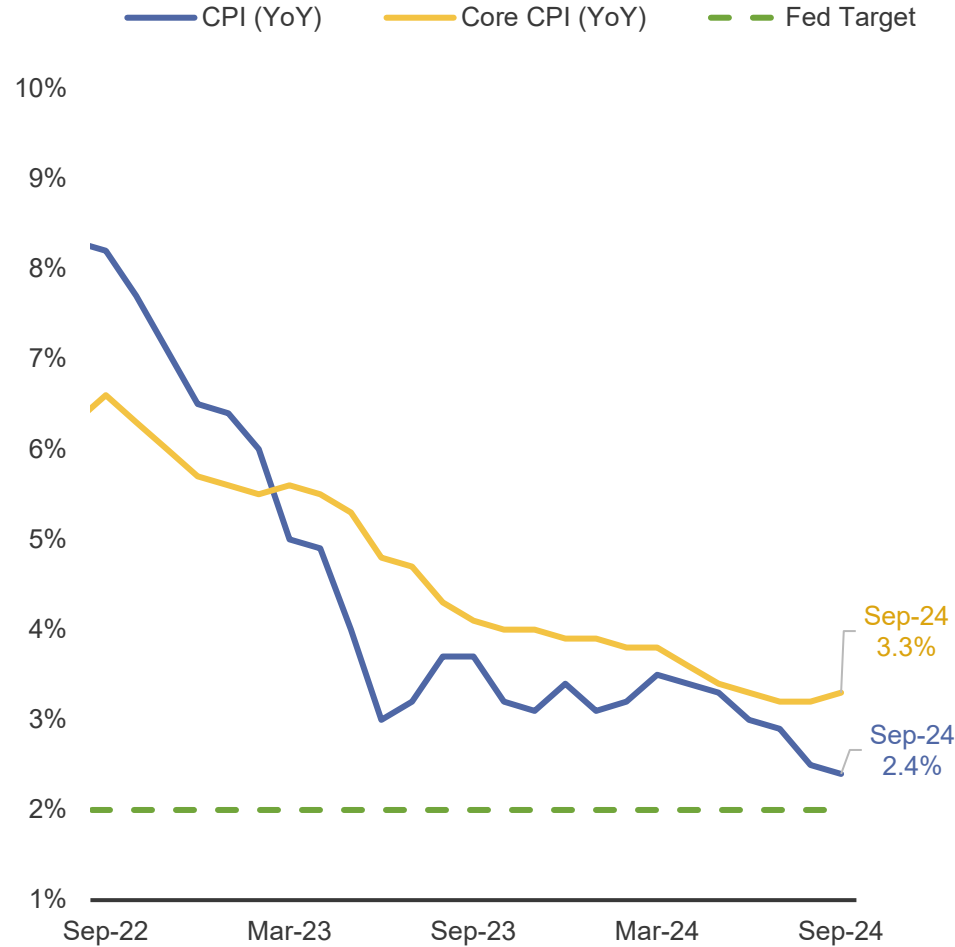
- ▶ Treasury yields continued their descent
 - ▶ Yields on maturities between 3 months and 10 years fell 62-112 bps during the 3rd quarter
 - ▶ The yield curve began to disinvert in the 3rd quarter as the spread between the 2-year and 10-year Treasury reached positive territory for the first time in over 2 years
 - ▶ Despite intra-quarter spread widening, yield spreads across most credit sectors were range bound at tight levels, reflecting the strength of the economy

Labor Market Moves Into Better Balance and Inflation Trends Lower

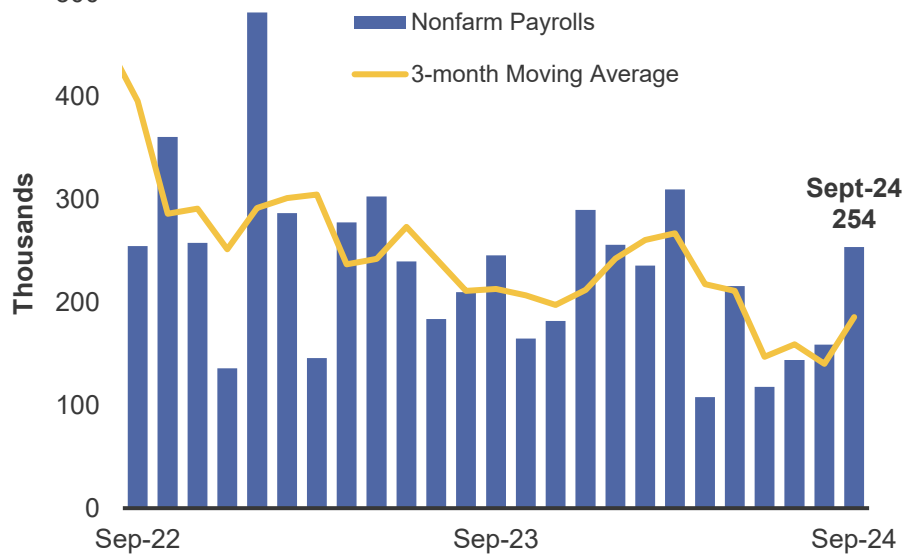
Unemployment Rate



Consumer Price Index (CPI) Year-Over-Year Changes

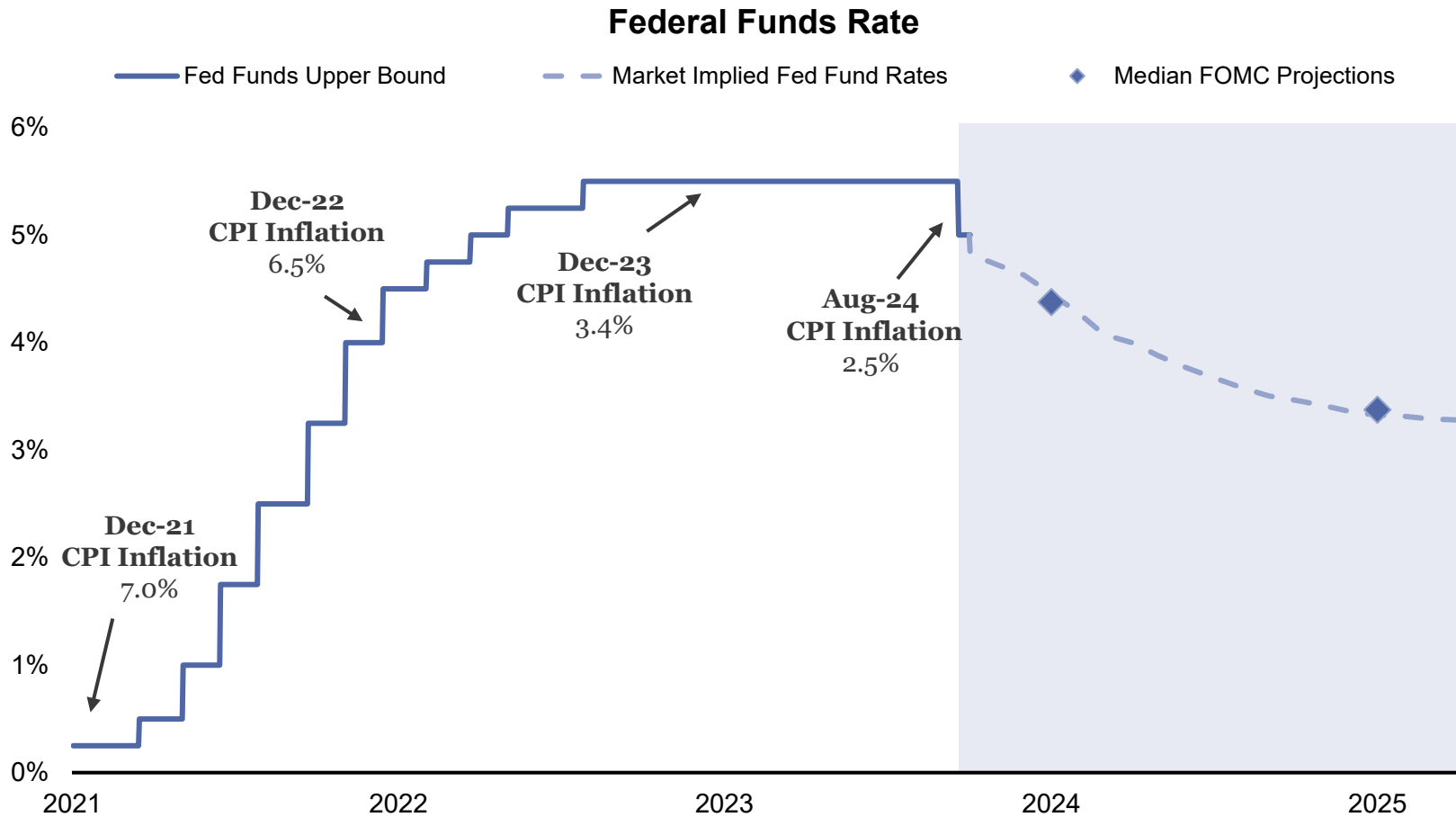


Monthly Change In Nonfarm Payrolls



Source: Bureau of Labor Statistics and Bloomberg Finance L.P., as of September 2024. Data is seasonally adjusted.

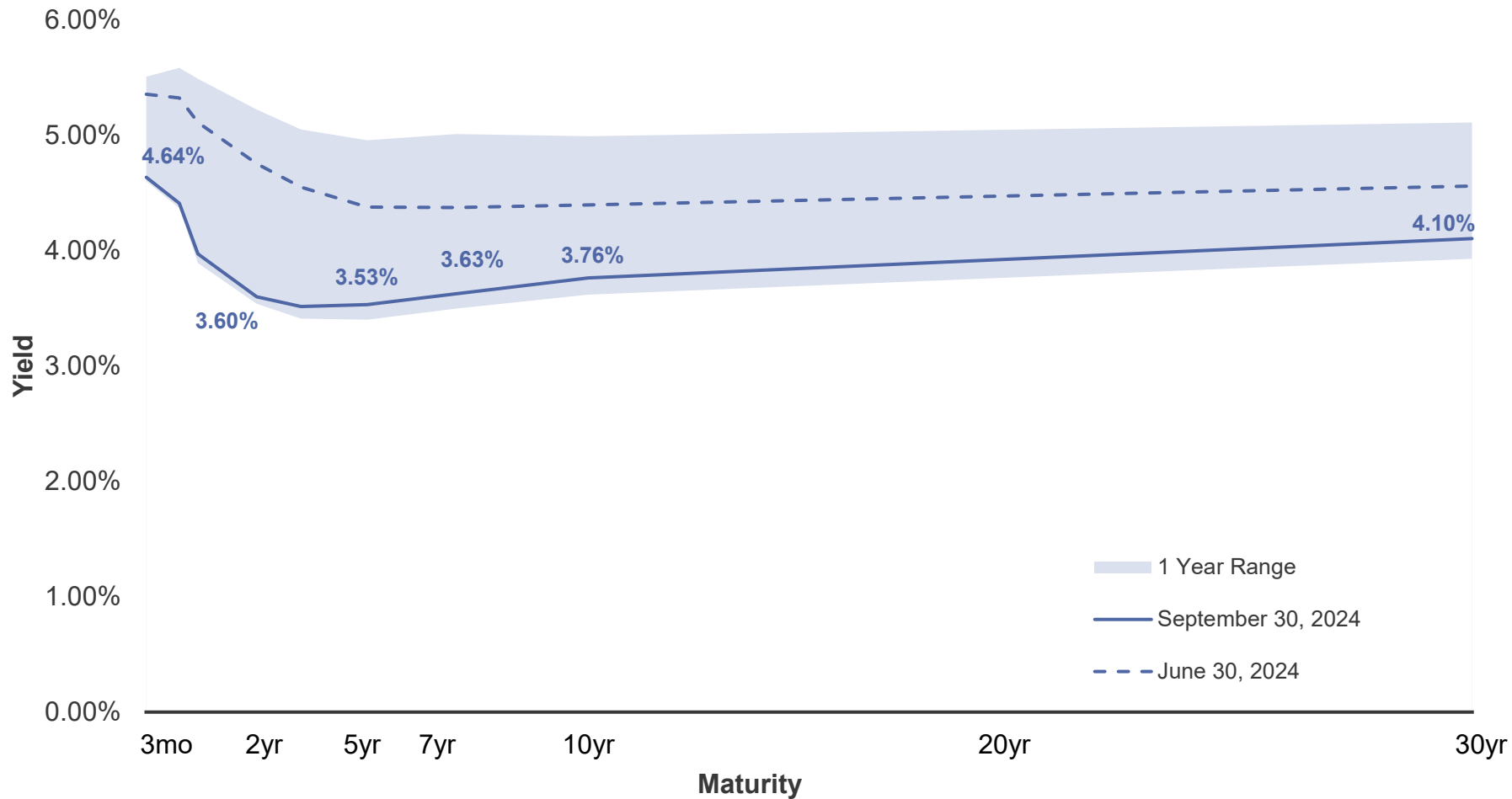
The Fed Begins the Cutting Cycle With 50bps



Source: Federal Reserve. Market Implied Fed Funds as of September 30, 2024. Bloomberg Finance L.P.

U.S. Treasury Yields Fall and the Yield Curve Begins to Disinvert

U.S. Treasury Yield Curve

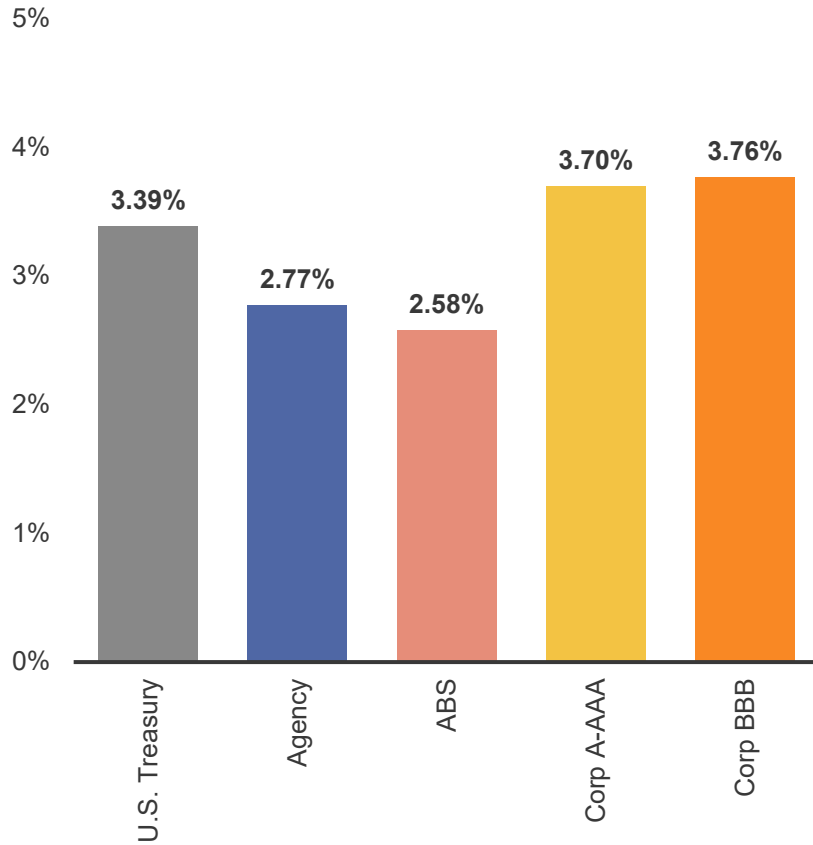


Source: Bloomberg Finance L.P., as of September 30, 2024

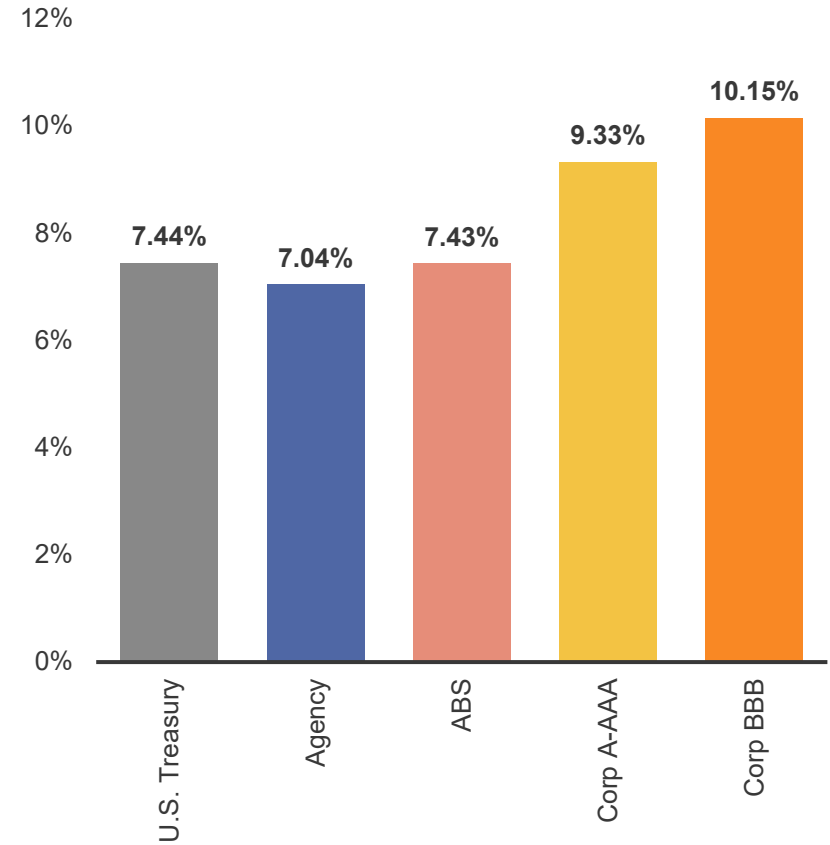
Fixed Income Market Returns Strong Performance

1-5 Year Indices

Third Quarter 2024 Returns



1-Year Return



Source: ICE BofA Indices. ABS indices are 0-5 year, based on weighted average life. As of September 30, 2024.

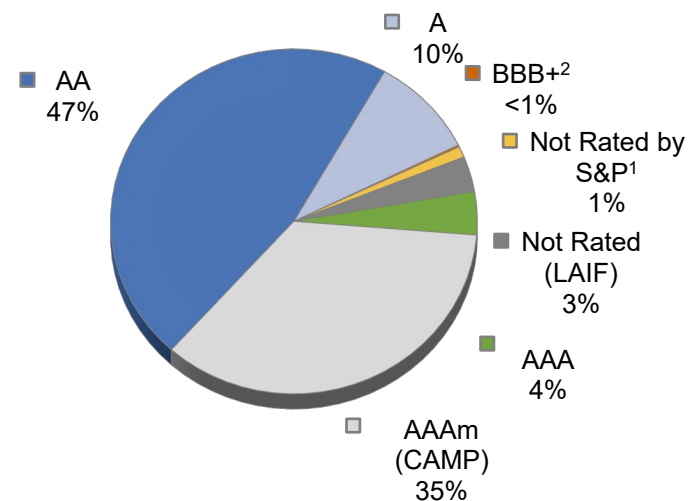
Portfolio Update



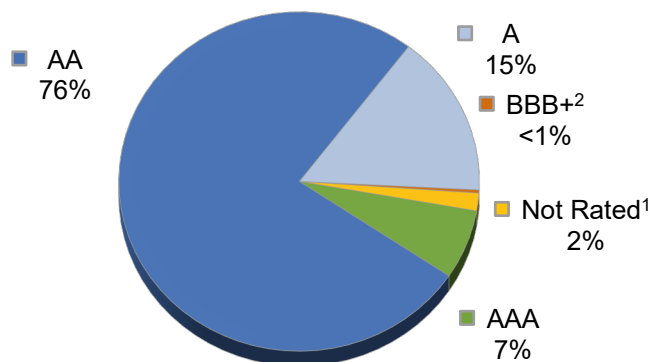
Portfolio Is Well Diversified and Comprised of High-Quality Securities

Security Type	Total Market Value	% of Portfolio	Change from Prior Quarter
U.S. Treasury	\$262,463,562	30.2%	+11.1%
Federal Agency	\$26,085,001	3.0%	-1.0%
Federal Agency CMOs	\$100,419,668	11.5%	+2.7%
Municipal Obligations	\$4,350,047	0.5%	+0.1%
Negotiable CDs	\$4,619,754	0.5%	+0.1%
Corporate Notes	\$97,193,819	11.2%	+1.8%
Asset-Backed Securities	\$37,040,658	4.3%	+0.6%
Securities Sub-Total	\$532,172,509	61.2%	+15.4%
Accrued Interest	\$2,231,218		
Securities Total	\$534,403,727		
CAMP	\$308,186,239	35.5%	-14.8%
LAIF – Total	\$28,869,503	3.3%	-0.6%
Total Investments	\$871,459,469	100.0%	

Credit Quality Distribution Including Liquid Accounts

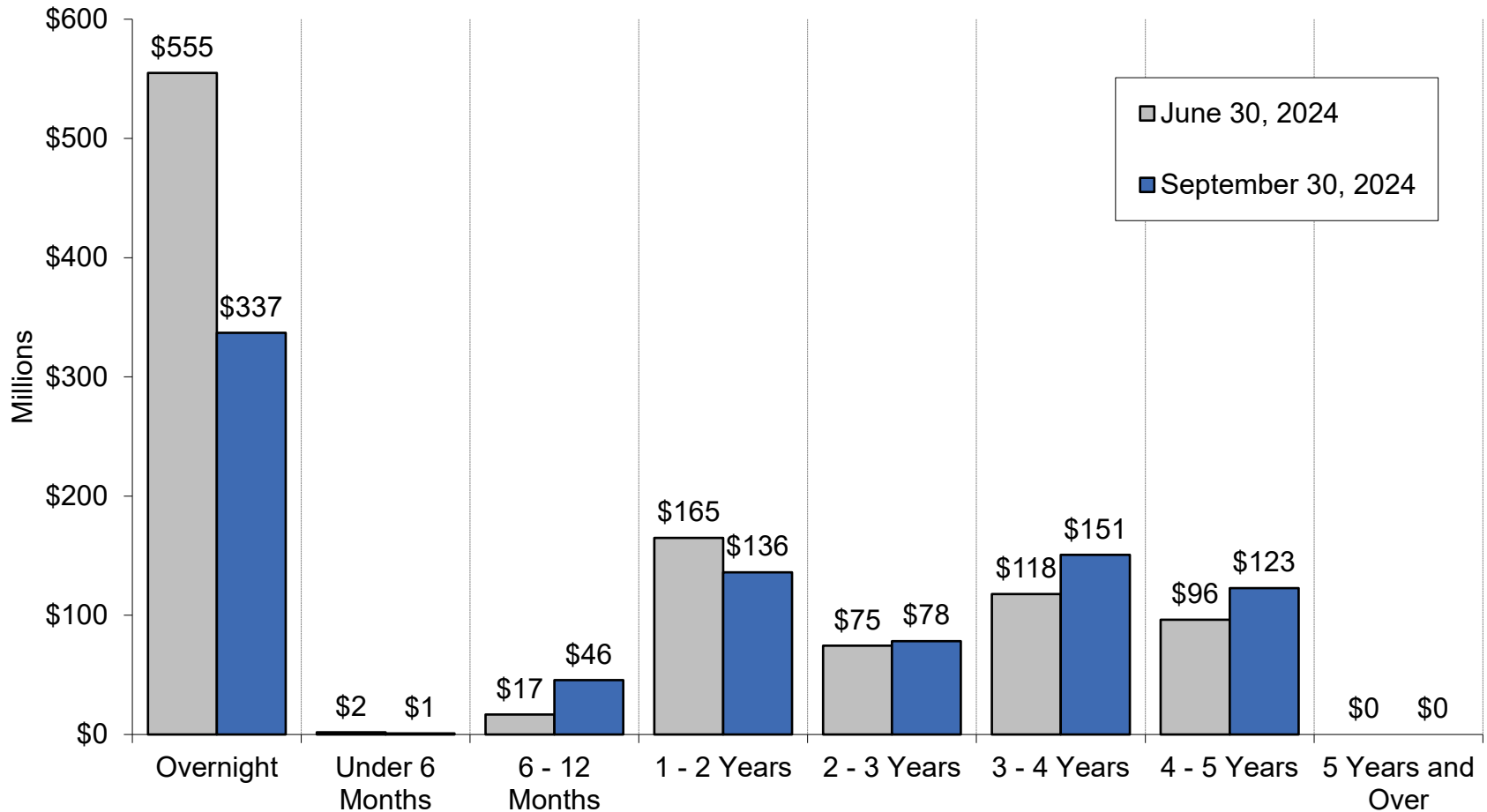


Credit Quality Distribution Excluding Liquid Accounts



As of September 30, 2024. Values may not sum to totals due to rounding. Ratings are by Standard & Poor's
 1. The "Not Rated" category comprises asset-backed securities rated Aaa by Moody's.
 2. The "BBB+" category comprises securities rated in a rating category of A or better by at least one NRSRO.

Portfolio Maturity Distribution—Including Liquid Accounts

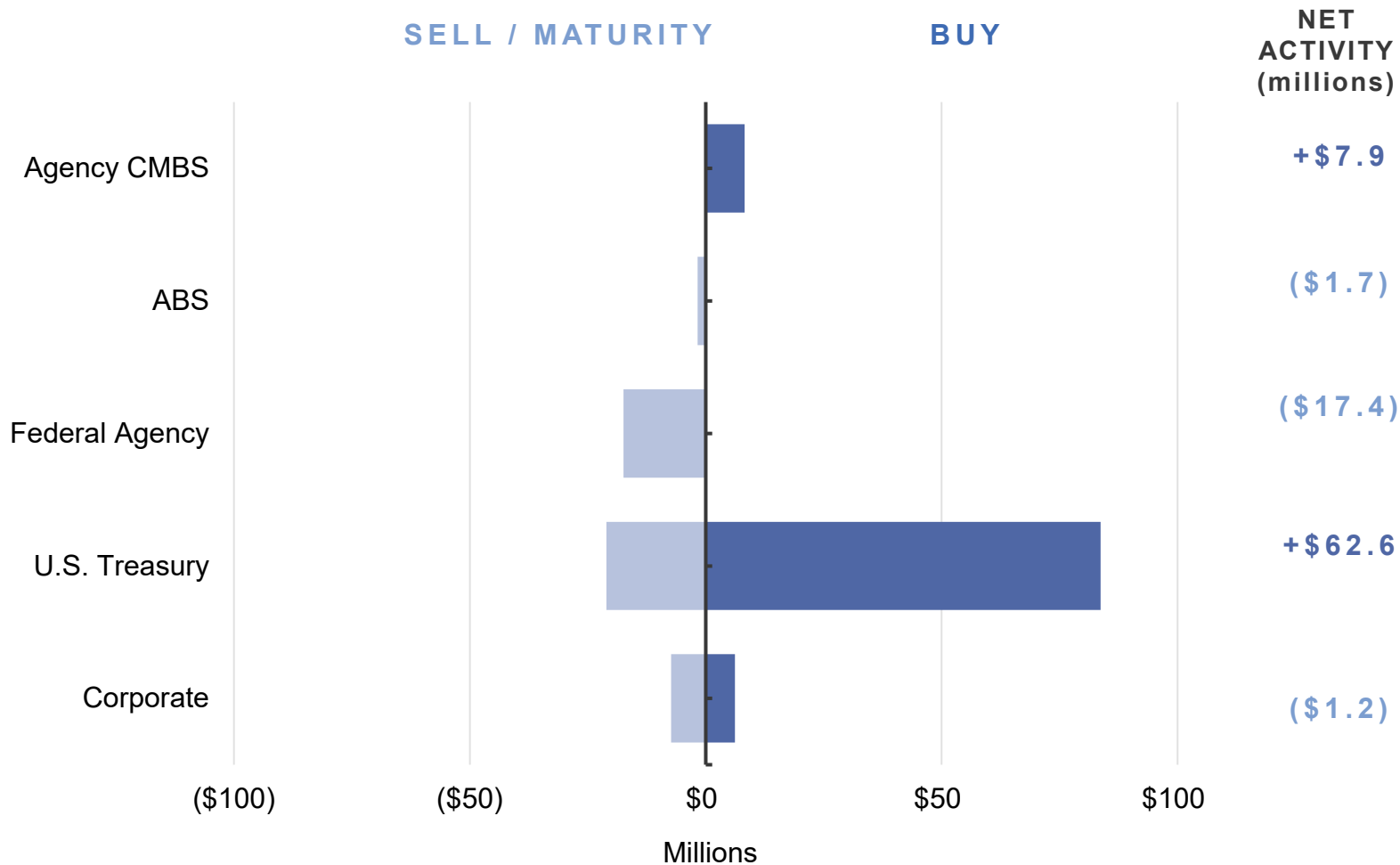


Callable and floating-rate securities are included in the maturity distribution analysis to their stated maturity date. Includes funds in LAIF and CAMP.

Third Quarter Portfolio Strategy Recap

- The 2-year U.S. Treasury yield fell 112 basis points over the quarter as the Fed cut its target benchmark rate by 0.50% in September.
- Investor appetite continued to pressure yield spreads toward near multi-year lows across most investment grade sectors.
- PFMAM favored **U.S. Treasuries** as tight spreads limited total return opportunities in other sectors.
- Robust new issuance in **Corporates** was well-absorbed by investor demand.
 - Financial and banking issuers led excess returns over most industries across most of the yield curve.
 - Expectation of further rate cuts amidst still favorable economic conditions continue to support credit products.
 - PFMAM remains selective when adding credit to the portfolio's allocation.
- **Asset-backed securities (ABS)** generated muted excess returns
 - Spreads widened modestly in automobile and credit card collateral.
 - Incremental interest income helped offset the adverse price impact of wider spreads.
- **Mortgage-Backed Securities** were top-of-class performers during the quarter
 - Spreads continued to test 12-month lows.
 - Declining mortgage rates and optimism in the housing market provided a tailwind for the sector.
 - New 5-year CMBS issuance from Freddie Mac has presented great opportunities for the portfolio in 2024.
- Portfolio's duration was 99% of the benchmark duration at quarter-end.

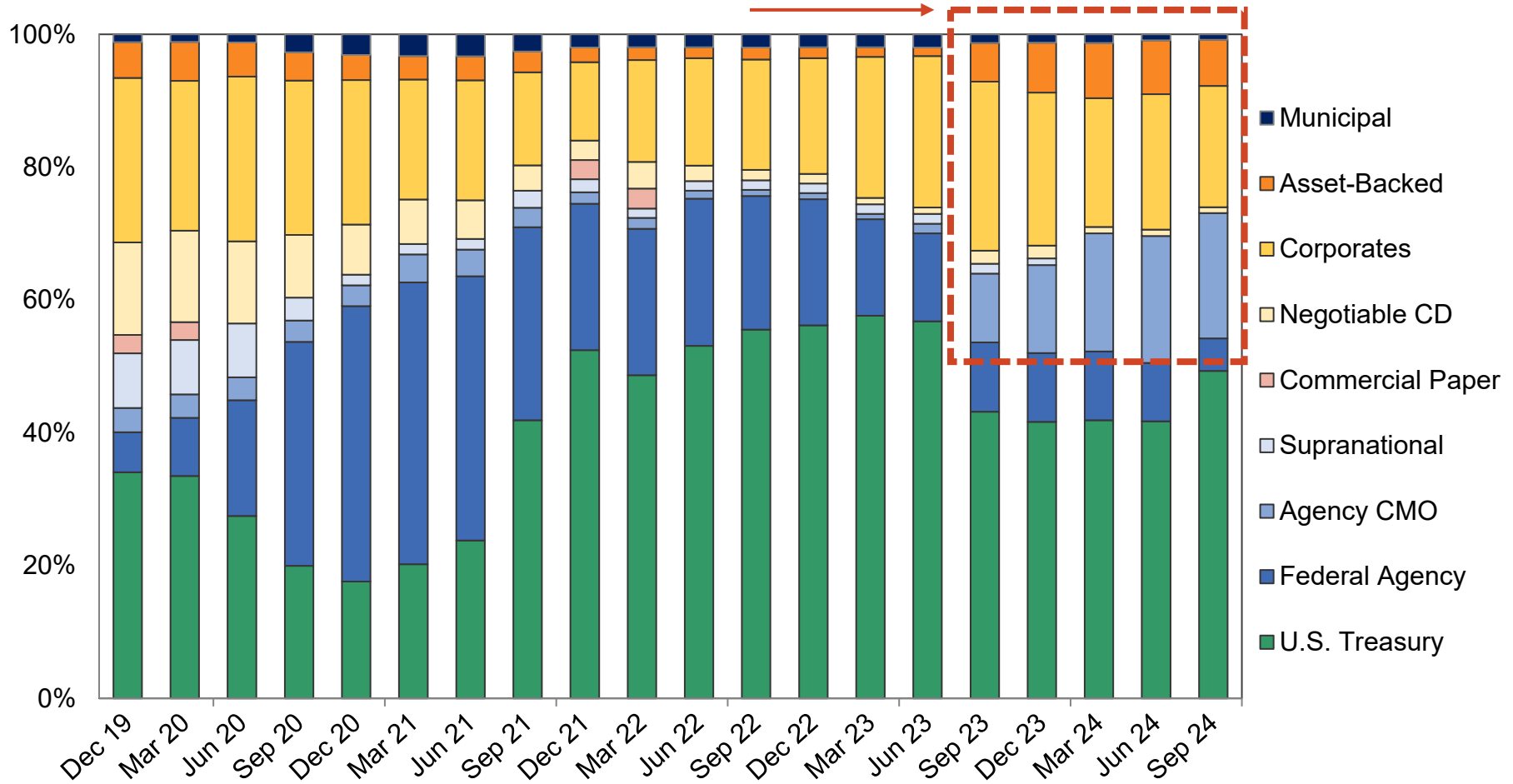
Third Quarter Trade Activity



Portfolio purchases, sells, maturities, and paydowns through periods June 30, 2024 – September 30, 2024.

Historical Sector Allocation – PFMAM-Managed Portfolio

- Increasing the portfolio's diversification over the past year has positioned the portfolio for strong income generation and will drive total return moving forward.



Portfolio Total Return Performance

- The County’s portfolio and its benchmark generated strong total returns for the quarter and past year.
- Historically, the portfolio continues to generated good performance relative to the benchmark.

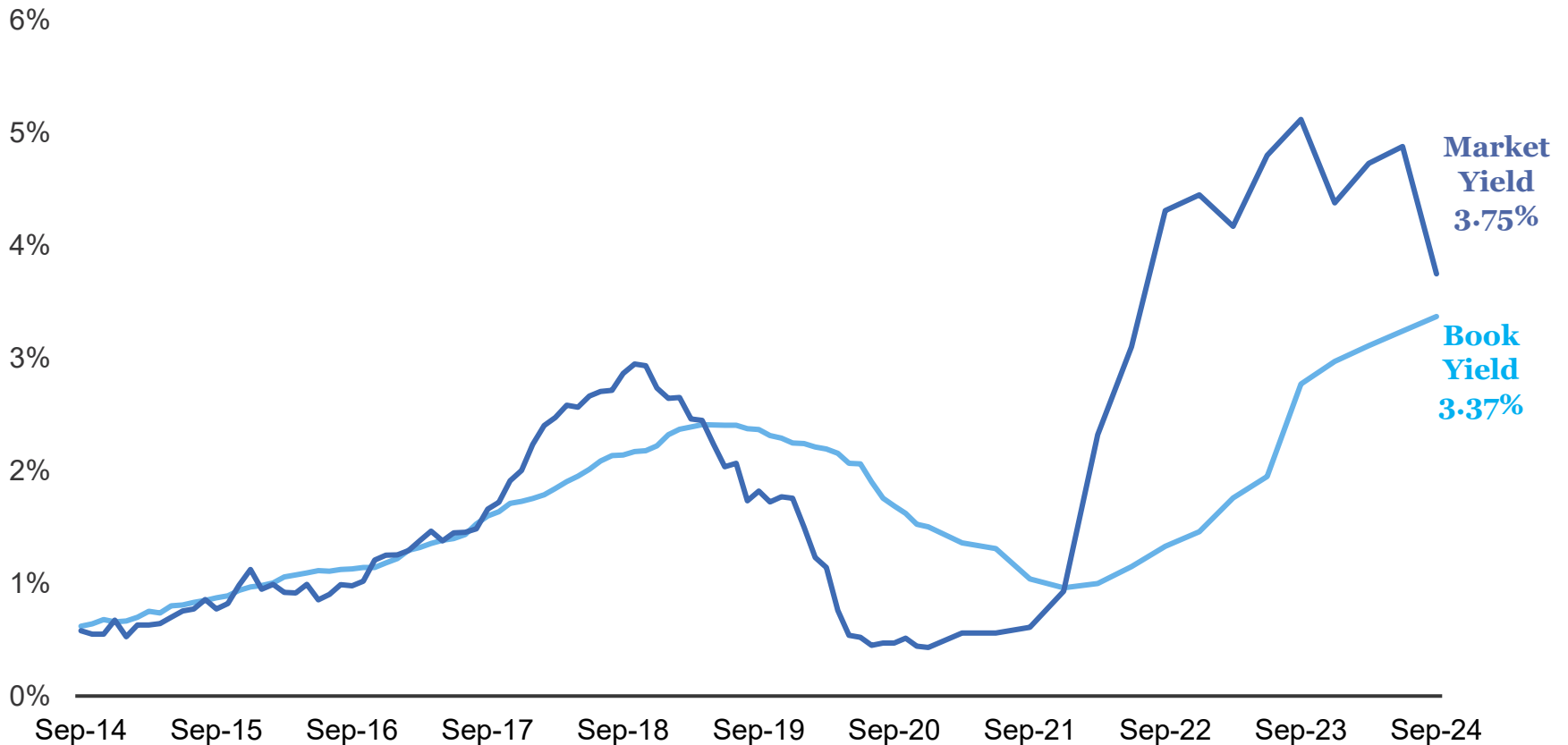
Total Return For periods ended September 30, 2024

	Duration (years)	3Q 2024	Past Year	Past 5 Years	Past 10 Years	Since Inception
Yolo County	2.49	3.28%	7.80%	1.49%	1.61%	2.85%
Benchmark	2.51	3.41%	7.66%	1.21%	1.25%	2.27%
Difference	-	-0.13%	+0.14%	+0.28%	+0.36%	+0.58%

- Performance on a trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute’s Global Investment Performance Standards (GIPS).
- Inception date is June 30, 1998.
- Performance, yield, and duration calculations exclude holdings in CAMP, LAIF, and the money market fund.
- The County’s benchmark is the ICE Bank of America (BofA) 1-5 Year Gov/Corp A-AAA U.S. issuers as of 6/30/21. From 12/31/20 to 6/30/21, it was the ICE BofA 1-5 Year U.S. Treasury Index. From 9/30/17 to 12/31/20 it was the ICE BofA 0-5 Year U.S. Treasury Index. From 3/31/15 to 9/30/17, the benchmark was a blend of 30% ICE BofA 3-month Treasury index and 70% ICE BofA 1-3 year U.S. Treasury Index. From 3/31/02 to 3/31/15, the benchmark was a blend of 50% ICE BofA 1-3 Year U.S. Treasury index and 50% ICE BofAML 3-month Treasury Bill index. Prior to 3/31/02, the benchmark was the ICE BofA 1-3 Year U.S. Treasury index.

Portfolio Yield Continued to Move Higher Even As Market Yields Fell

Yield to Maturity at Cost (Book Yield) vs. Yield to Maturity at Market



Portfolio Earnings-Actual and Projected

INVESTMENT PORTFOLIO						
Date	Month-End Amortized Cost Value	Portfolio YTM at Cost	Actual Accrual Basis Earnings ²	Earnings Rate ¹	Assumed Reinvestment Rate ¹	Projected Accrual Basis Earnings ³
Jul-24	\$485,005,277	3.26%	\$1,246,135			
Aug-24	\$484,807,725	3.30%	\$1,140,597			
Sep-24	\$535,206,803	3.37%	\$1,144,625			
Oct-24	-	-	-	3.33%	3.51%	\$1,506,009
Nov-24	-	-	-	3.33%	3.47%	\$1,459,085
Dec-24	-	-	-	3.33%	3.44%	\$1,507,966
Jan-25	-	-	-	3.33%	3.40%	\$1,507,966
Feb-25	-	-	-	3.33%	3.38%	\$1,362,034
Mar-25	-	-	-	3.33%	3.36%	\$1,507,966
Apr-25	-	-	-	3.33%	3.36%	\$1,459,322
May-25	-	-	-	3.34%	3.35%	\$1,510,014
Jun-25	-	-	-	3.35%	3.35%	\$1,465,481
						\$13,285,842

1. Earnings rates calculated based on the yield to maturity at cost through 9/30/2023 and the assumed reinvestment rates of maturities for each period thereafter.
2. Assumed reinvestment rates based on the interpolated 2.5-year U.S. Treasury Forward Rate Curve as of 9/30/2024.
3. Earnings for the periods 7/31/2024 – 9/30/2024 are actual earnings and include realized gains/losses; periods thereafter are projected.
4. Earnings projections assume no sales or realized gains/losses for periods after 9/30/2024.

Outlook and Strategy Implications

KEY TAKEAWAYS

- ▶ The Fed September “dot plot” implies 50 bps of additional cuts in 2024 and 100 bps through 2025.
- ▶ Inflation continues to make progress toward the Fed’s 2% target although shelter costs remain a headwind.
- ▶ Labor market reached better balance and supports consumer activity.
- ▶ U.S. consumer spending continues to support the “soft landing” scenario.

RISKS TO OUTLOOK

- ▶ Risks to achieving the Fed’s employment and inflation goals are now “roughly in balance.”
- ▶ Continued elevated geopolitical risks, including Ukraine, Israel, China.

PORTFOLIO STRATEGY

- ▶ Increasing the portfolio’s allocation to spread sectors, specifically corporate notes and mortgage-backed securities, has aided portfolio performance following sector spread tightening.
- ▶ Maintain broad diversification by sector, industry, and issuer.
- ▶ Continue to manage the portfolio’s duration neutral to the benchmark duration.
- ▶ Evaluate all opportunities as we seek to safely add value to the County’s portfolio while maintaining a strong sense of safety and risk management.

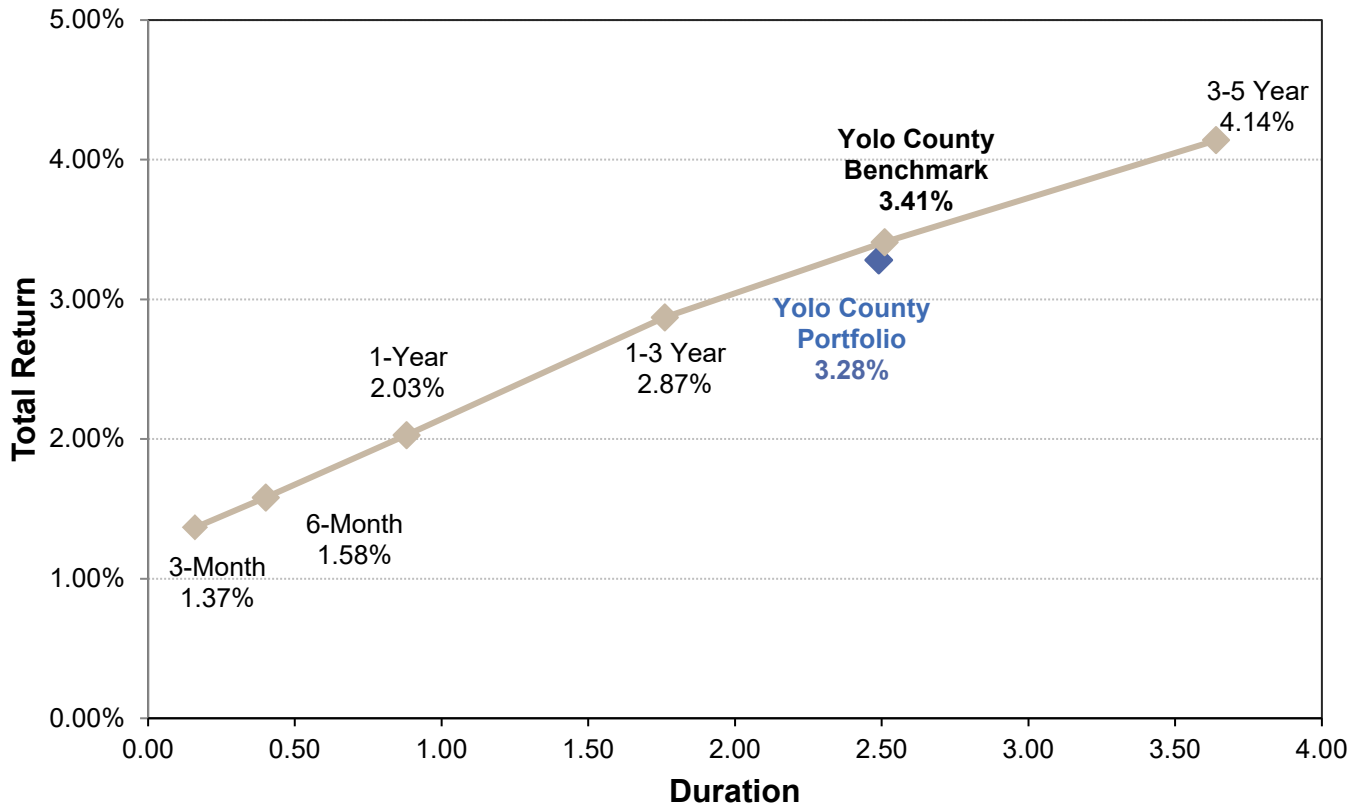
Additional Portfolio Information



Long-Term Strategies Outperformed in the Quarter

Quarterly Total Returns

Yolo County, Yolo County Benchmark, and Various ICE Merrill Lynch Treasury Indices



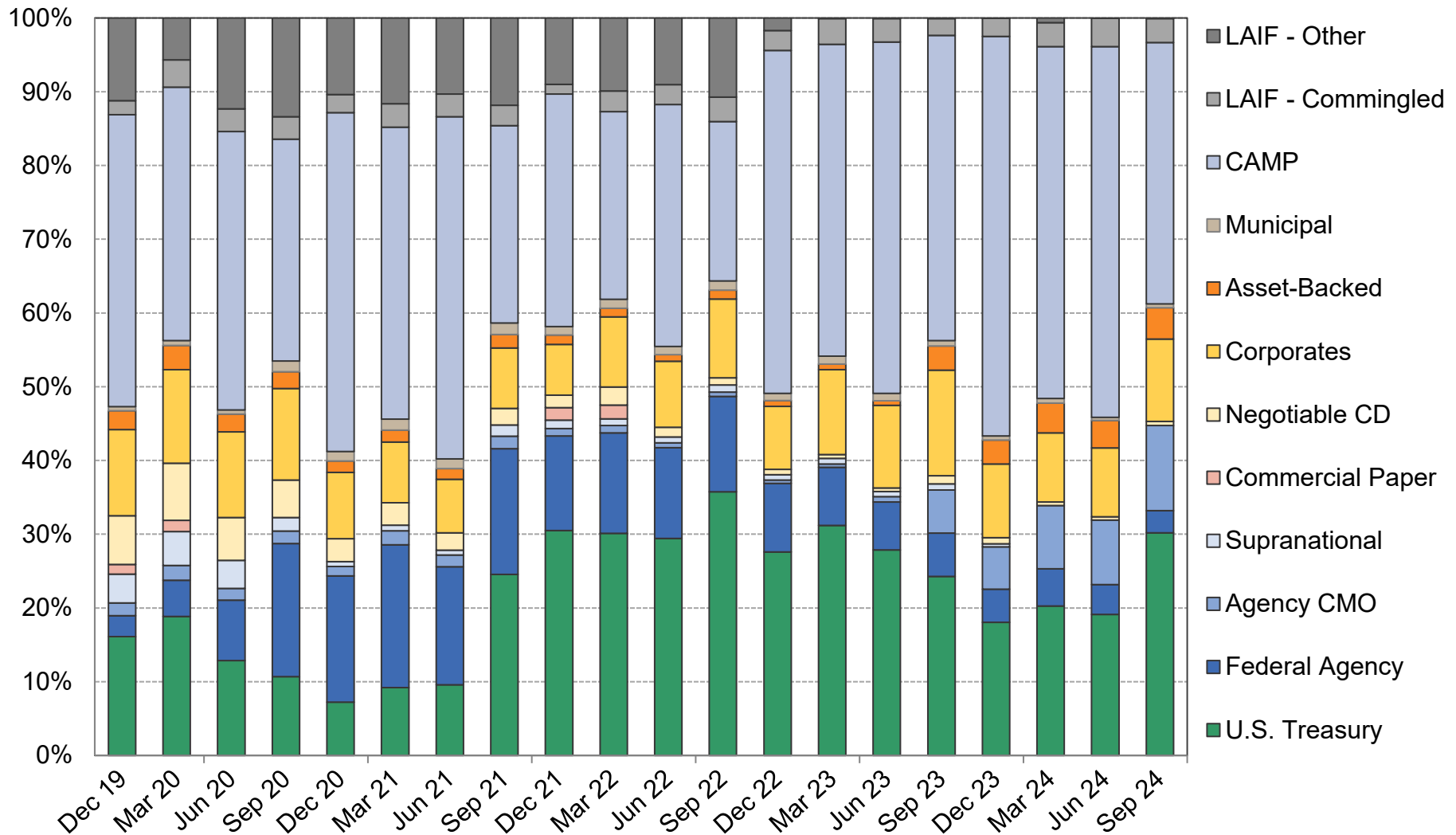
Yields

Portfolio Yield and LAIF Quarterly Apportionment Rate

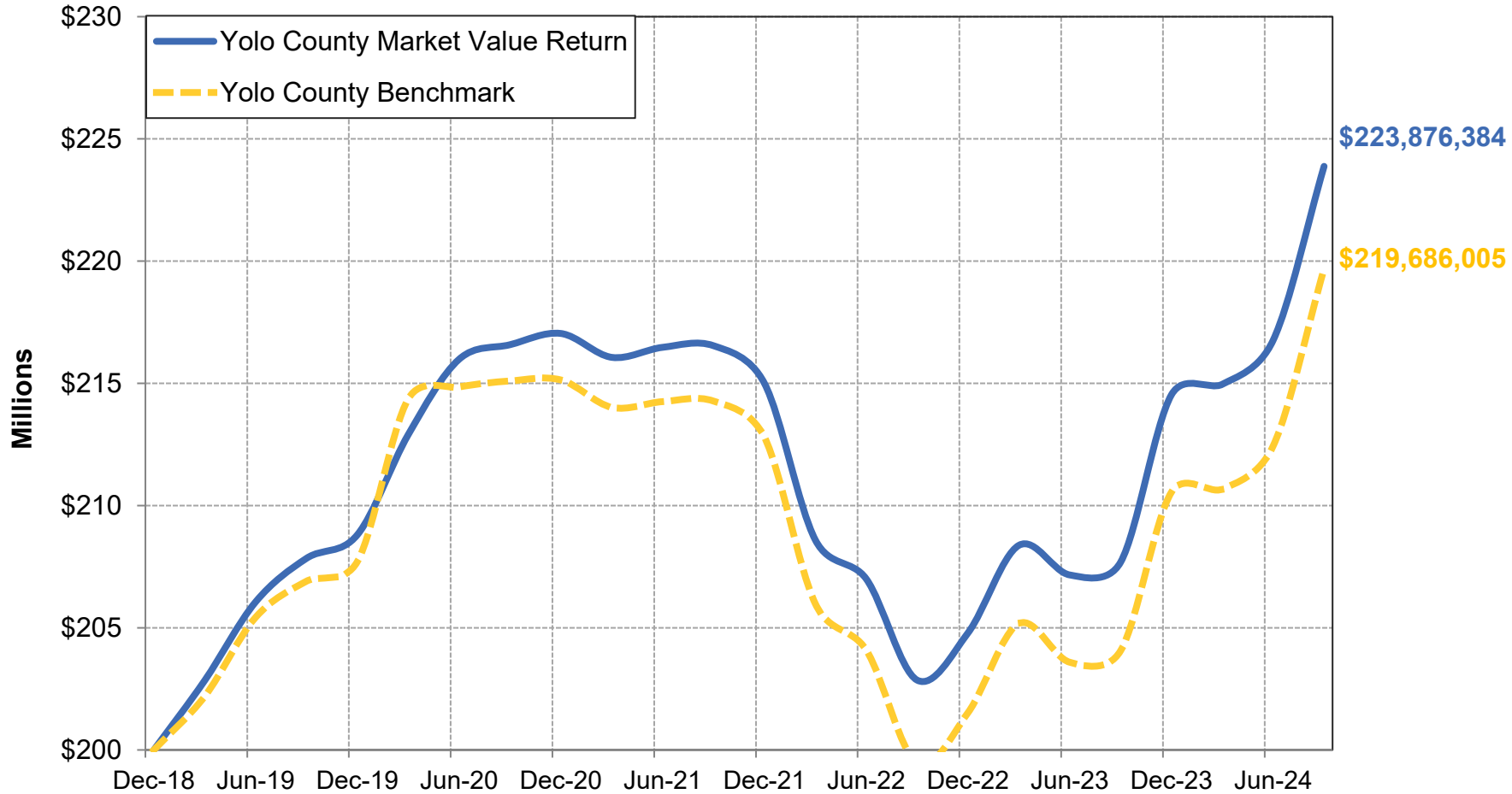
Yolo County	3.37%
LAIF	4.71%

- For periods ending September 30, 2024.
- Yolo County yield is the portfolio yield at cost at quarter end.
- The County's benchmark is the ICE Bank of America (BoFA) 1-5 Year Gov/Corp A-AAA U.S. issuers as of 6/30/21. From 12/31/20 to 6/30/21, it was the ICE BoFA 1-5 Year U.S. Treasury Index. From 9/30/17 to 12/31/20, it was the ICE BoFA 0-5 Year U.S. Treasury Index. From 3/31/15 to 9/30/17, the benchmark was a blend of 30% ICE BoFA 3-month Treasury index and 70% ICE BoFA 1-3 year U.S. Treasury Index. From 3/31/02 to 3/31/15, the benchmark was a blend of 50% ICE BoFA 1-3 Year U.S. Treasury index and 50% ICE BoFA 3-month Treasury Bill index. Prior to 3/31/02, the benchmark was the ICE BoFA 1-3 Year U.S. Treasury index.
- Source: Bloomberg, LAIF website.

Historical Sector Allocation – All Funds



County's Strategy Remains Positive



Source: Bloomberg Finance LLC

- Hypothetical growth of \$200 million.
- Past performance is not indicative of future performance.

Earnings Projection Assumptions and Important Disclosures

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. **Past performance does not necessarily reflect and is not a guarantee of future results.** The information contained in this presentation is not an offer to purchase or sell any securities.

Notes to Earnings Estimates

1. Estimated Earnings based on the amortized cost of the portfolio as of September 30, 2024. Source: PFMAM account statements. Estimated Earnings assume no sales, realized gains/losses, withdrawals/deposits, or changes to the initial portfolio cash flows. The Estimated Earnings assume the initial portfolio is invested at the yield to maturity at cost with all maturities reinvested at the assumed reinvestment rate as described below. Yields on investments are presented based on corresponding basis (actual/actual, actual/360, 30/360) depending on security type. Actual reinvestment rates will vary based on events outside of your or our control, including the prevailing level of interest rates in the future. Assumptions may or may not be proven correct as actual events occur. Any changes in assumptions will have an effect on our analysis. In particular, reinvestment at lower rates will result in reduced earnings, which may be materially different than those shown in the analysis.
2. The Portfolio Earnings Rate is based on the portfolio's yield to maturity at cost as of September 30 and assume no sales, realized gains/losses, or changes to the portfolio cash flows. The portfolio earnings rate is weighed by market value to be constant with PFMAM account statement methodology.
3. The Reinvestment Rate Assumption is based on the 2.5-year U.S. Treasury Forward Rate Curve as of October 24, 2024. Yield curve source: Bloomberg Finance LP. Investments have not been executed. Actual rates and security availability will vary at time of placement.



Disclaimer

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For more information regarding PFMAM’s services please visit www.pfmam.com.



Yolo County, California

Sustainable Investment Solutions

Presentation to the Yolo County Financial Oversight Committee

November 14, 2024

***The following information is provided as
requested by the County***

Please see important disclosures at the end of this presentation



Sustainable Investing Options



Screening Permitted Credit Investments

For clients with an SRI/ESG mandate

1) Applicable State Laws & Statutes

2) Our Approved Credit List

- Credit research is integral to our investment process
- Senior credit research analysts continuously monitor an approved credit list driven by fundamental analysis
- Credit risk is assessed at the security, issuer, and sector level

3) Client's Investment Policy Statement

- Credit quality restrictions, maturity limits, and permitted sectors that align with the client's investment objectives and risk tolerances should be detailed
- If applicable, sustainability considerations may also be defined within the investment policy, which could include:
 - **Socially responsible investing (SRI)** criteria to avoid specific issuers and/or industries
 - **Environmental, social, and governance (ESG)** criteria to restrict credit investments based on specific sustainability objectives

- The **County can provide a specific list of issuers** that it wants to avoid within its investment portfolio as part of its investment policy/mandate
- PFMAM will add those companies to a do-not-buy list within our trade compliance system, Bloomberg AIM
- Traders will be notified that a trade is not permitted if they attempt to purchase from an issuer on the prohibited list

- Sustainalytics has categorized each rated organization into one of over 40 industries and one of over 135 subindustries
- The County can include exclusions for specific **industries** and/or **subindustries** within its investment policy/mandate
 - ▶ Example industry- and subindustry-based exclusions include fossil fuel-related industries, tobacco producers, pharmaceutical companies, and paper/forestry organizations
 - ▶ Alternatively, exclusions can be based on a company's **direct involvement** in one or more of **27 specific business activities**. A revenue threshold must be defined (i.e., a company with *any* revenue (>0%) linked to chosen activity will be excluded, a company with revenue generation greater than 5% will be excluded, a company with revenue generation greater than 50% will be excluded)
 - ▶ Example business activities include small arms production, operation of for-profit private prisons, and gambling services

- The County can require investments to be screened based on **ESG Risk Rating metrics** within its investment policy/mandate
- Criteria options are outlined below

Limit Overall ESG-Related Risk

1 Universal Rating

Limit eligibility to issuers with medium or lower ESG risk ratings

2 Relative Rating

Eligible issuers must rank within the top half of their subindustry group; rankings are based on overall ESG Risk Rating scores of issuers within the same subindustry

3 Universal Rating with Exception Rule

Issuers must have medium or lower ESG risk; however, high ESG risk issuers can still be eligible if they rank within the top 25th percentile of their subindustry group

4 Combined Absolute & Relative ESG Rating

All eligible issuers must have a medium or lower ESG Risk Rating and score within the top half of their subindustry

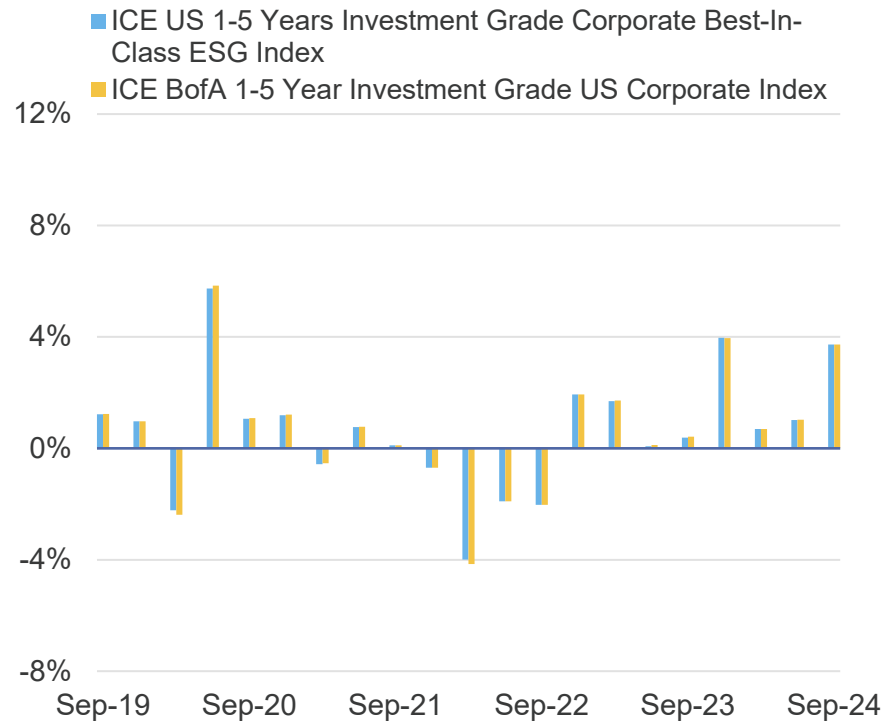
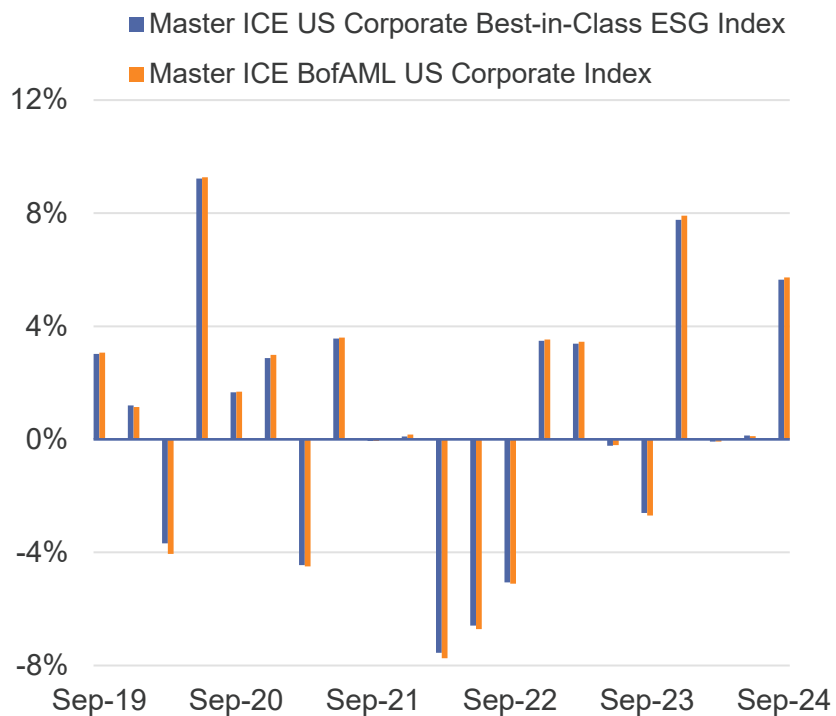
Reduce Environment-Linked Exposure

Limit environment-linked risk, as measured by each issuer's numerical contribution to their overall ESG Risk Rating

Notes on Sustainable Investing Options

- The three options detailed herein are **not** mutually exclusive; the County can choose a blend of all options if it wishes to do so
- Screenings only apply to credit issuers
 - U.S. Treasuries, federal agencies, municipal obligations, and money market funds are not screened
- There is no additional fee associated with company-specific exclusions (option 1 as defined in this document)
- For adding SRI and/or ESG criteria, fees depend on a variety of factors—including the complexity of the criteria chosen—but are typically an additional 1-2 basis points on total AUM (options 2 & 3)
- If the County incorporates ESG Risk Rating metrics (option 3) within the parameters defined in its investment policy, PFMAM will also provide ESG-specific updates and portfolio reporting on a quarterly basis
- PFMAM does not recommend specific SRI or ESG criteria. Instead, we create rules-based solutions for the client to implement the parameters defined in its investment policy/mandate
- Criteria is sourced from Sustainalytics, a Morning subsidiary

Fixed Income ESG Index vs. Non-ESG Index



5-Year Historical Return Comparison (October 1, 2019 - September 30, 2024)

	Master ESG Corporate Index	Master Non-ESG Corporate Index	1-5 Years ESG Corp Index	1-5 Year Non-ESG Corporate Index
Annualized Return	1.37%	1.29%	2.30%	2.30%
# of Quarters Outperformed	9 of 20	11 of 20	6 of 20	14 of 20

Source: Bloomberg data from October 1, 2019 to September 30, 2024. Number of quarters outperformed compares the two sets of the respective ESG and non-ESG benchmarks to each other.

Disclaimer: Indices are for illustrative purposes only and not available for direct investment. Past performance is not a guarantee of future results.

Appendix



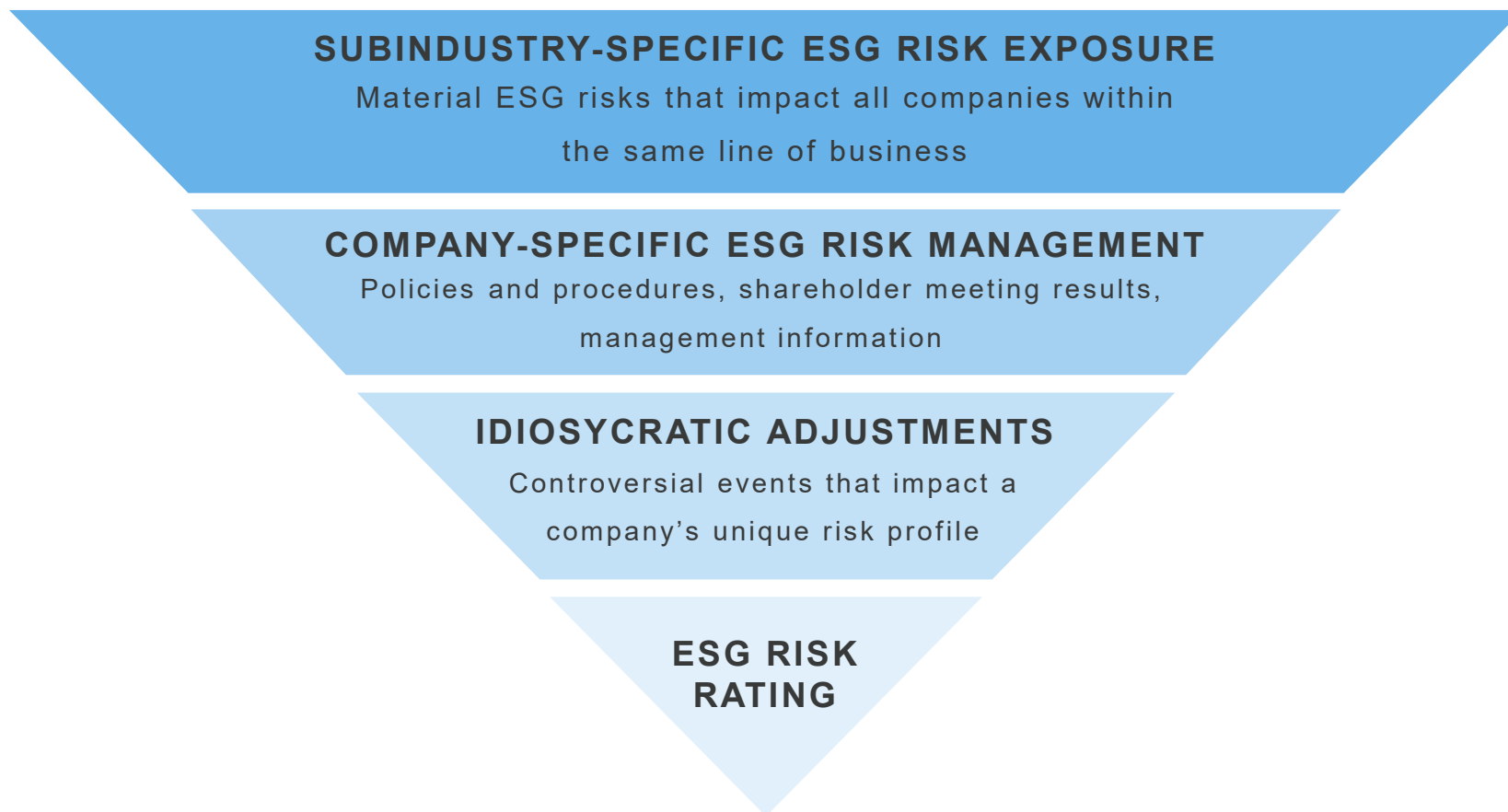
What is ESG Investing?

- Incorporates **measurable non-financial ESG factors** into an investment analysis
- Utilizes positive and/or negative **screening**, focusing on **material** ESG risks and management of those risks
 - Material risks may significantly impact enterprise value and operating performance
 - Overall, ESG risks are driven by an organization's primary business activities



How Can ESG Risk Be Measured?

- Evaluation focuses on exposure to, and management of, **material ESG risks**
- Ineffective management of material ESG risks could have a significant financial impact on company performance and enterprise value



Who is Sustainalytics?

- A Morningstar subsidiary dedicated to independent ESG and corporate governance research, ratings, and analysis
 - Supports investors around the world with the development and implementation of responsible investment strategies, as it has done for over 30 years
 - Continuously conducts in-depth research and analysis on over 15,000 public and private companies
- Sustainalytics's **ESG Risk Ratings** enable investors to evaluate different organizations—using a consistent methodology—by quantitatively defining a company's material ESG risk on a scale of 0-100

The image displays three overlapping screenshots of a Sustainalytics ESG Risk Rating Report. The top screenshot shows the main report header with the company name, industry (Technology Hardware), and country (United States). It features an ESG Risk Score of 16.4 (updated Mar 8, 2022) and a Low Risk rating. Below this is a bar chart for 'ESG Risk Rating Category Distribution' and a table for 'ESG Risk Rating Ranking' comparing the company to the Global Universe and Technology Hardware sub-universes. The middle screenshot shows a 'Peers Comparison' table listing five peers with their respective ESG Risk Ratings. The bottom screenshot shows a 'Contribution to ESG Risk Rating' table with categories like Medium, Low, and Negligible, and their respective percentages.

Company Name
Technology Hardware United States NAS:AAPL

ESG Risk Rating
ESG Risk Score: **16.4** (Updated Mar 8, 2022)
Momentum: **-0.5**
ESG Risk Rating: **Low Risk**

ESG Risk Rating Category Distribution

Category	Percentage
Negligible	1%
Low	45%
Medium	38%
High	11%
Severe	5%

ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
Global Universe	1878/14731	14th
Technology Hardware	187/502	23rd
Technology Hardware	17/105	16th

Peers Comparison

Peers (Market cap \$22.1 - \$2555.1bn)	Exposure	Management	ESG Risk Rating
1. HP Inc	32.9 Low	71.3 Strong	10.9 Low
2. Dell Technologies, Inc.	35.5 Medium	58.2 Strong	16.2 Low
3. Apple Inc	32.9 Low	53.4 Strong	16.4 Low
4. Canon Inc	33.6 Low	52.6 Strong	17.0 Low
5. FUJIFILM Holdings Corp.	36.9 Medium	54.9 Strong	17.8 Low

Contribution to ESG Risk Rating

Risk Rating Category	Contribution to ESG Risk Rating
Medium	35.4%
Low	22.7%
Low	15.1%
Negligible	9.2%
Negligible	7.6%
Negligible	7.4%
Negligible	2.6%
Low	100.0%



How is ESG Risk Exposure Determined?

- The **ESG Risk Rating** measures **economic value** at risk based on exposure to **unmanaged ESG Risks**
- An organization's ESG risk assessment is based on two primary factors:
 - **ESG Risk Exposure** – Determined at the subindustry level with adjustments for company-specific risk exposure levels
 - **Management of ESG Risk Exposure** – Based on policies, programs, quantitative performance, controversies, and corporate governance

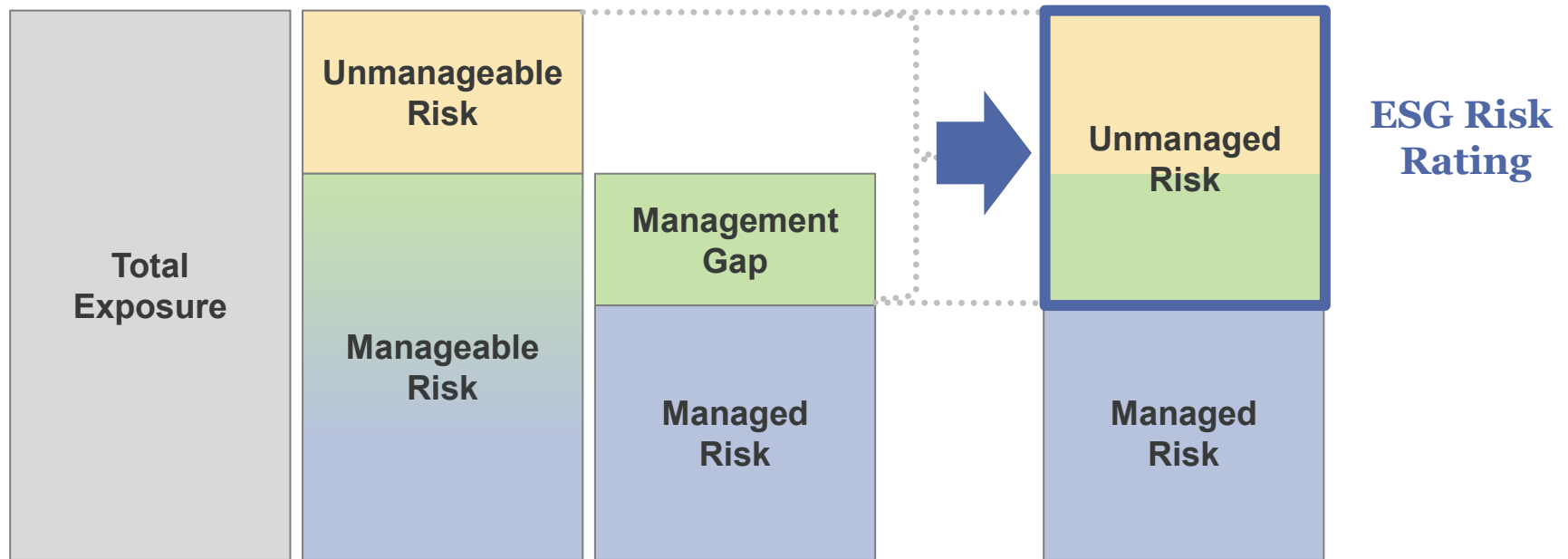
Unmanageable
Industry-specific risks
(carbon for oil
companies)

Manageable
ESG Risk that is not
being managed

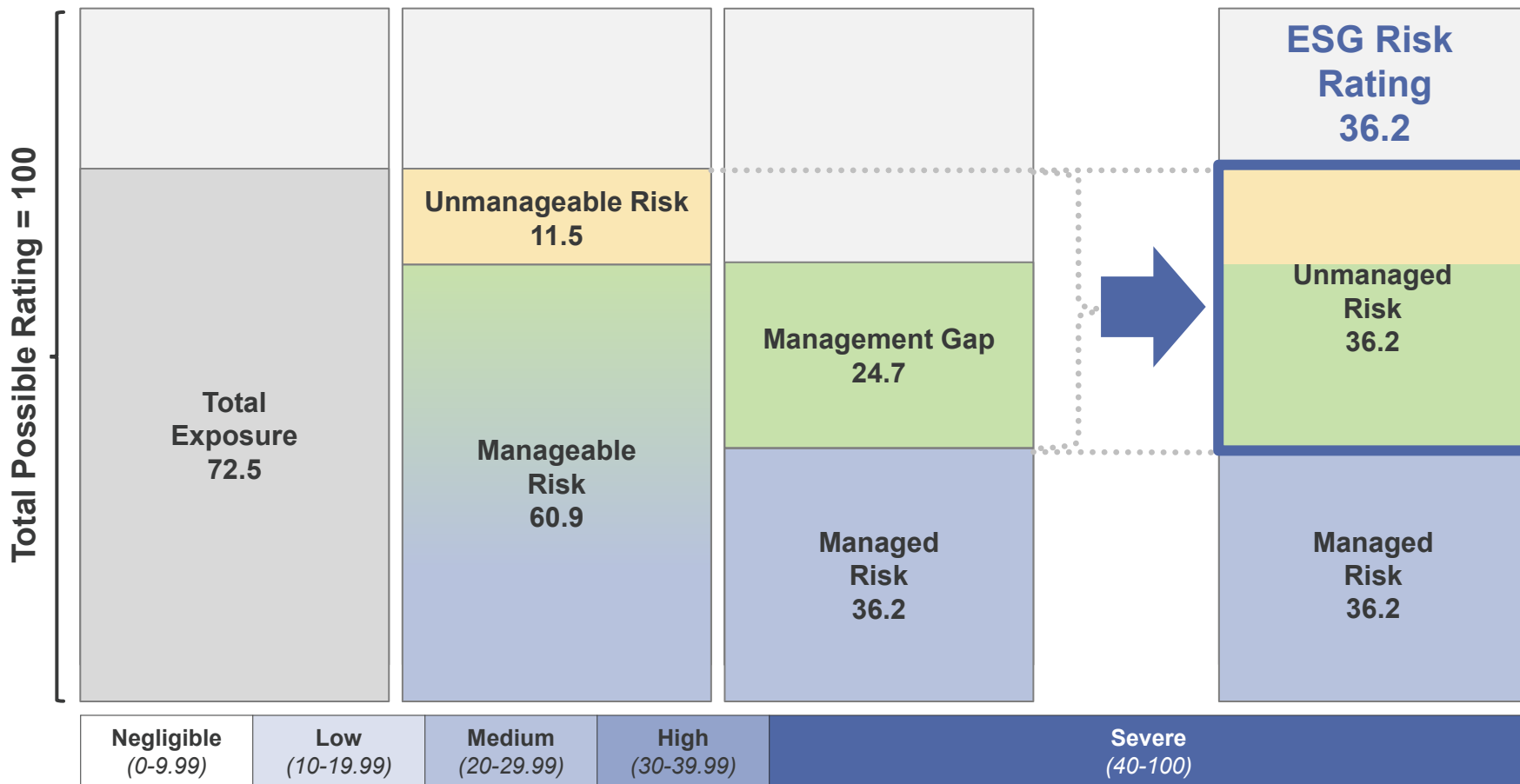
ESG Risk Rating = **Unmanageable ESG Risk** + **Management Gap**

ESG Risk Rating Decomposition

- **Total Exposure** is the starting point for a company's exposure to material ESG issues
- Some companies have **Unmanageable Risks**, e.g. an oil company will always face risks related to carbon until it changes its business model
- Of the **Manageable Risk**, a portion is managed through a company's policies, programs, management services, etc.; the remainder is considered unmanaged (**Management Gap**)
- The **ESG Risk Rating** evaluates unmanaged ESG risk



ESG Risk Rating Example Calculation



Source: Sustainalytics. Last updated May 24, 2024. Illustration not drawn to scale.

Industry Categories

- Sustainalytics has categorized each rated organization into over 40 industries and over 135 subindustries
- SRI/ESG criteria may include an exclusionary component with exclusions based on specific industries and subindustries

Aerospace & Defense	Construction & Engineering	Electrical Equipment	Industrial Conglomerates	Precious Metals	Technology Hardware
Auto Components	Construction Materials	Energy Services	Insurance	Real Estate	Telecommunication Services
Automobiles	Consumer Durables	Food Products	Machinery	Refiners & Pipelines	Textiles & Apparel
Banks	Consumer Services	Food Retailers	Media	Retailing	Traders & Distributors
Building Products	Containers & Packaging	Healthcare	Oil & Gas Producers	Semiconductors	Transportation
Chemicals	Diversified Financials	Homebuilders	Paper & Forestry	Software & Services	Transportation Infrastructure
Commercial Services	Diversified Metals	Household Products	Pharmaceuticals	Steel	Utilities

Business Activity Screening Capabilities



Abortion



Adult Entertainment



Alcoholic Beverages



Animal Testing



Anti-Personnel Mines



Arctic Oil & Gas Exploration



Biological & Chemical Weapons



Cannabis



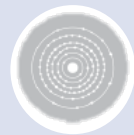
Cluster Weapons



Contraceptives



Controversial Weapons



Depleted Uranium



Fur and Specialty Leather



Gambling



Genetically Modified Plants & Seeds



Human Embryonic Stem Cell and Fetal Tissue



Military Contracting



Nuclear



Nuclear Weapons



Oil & Gas



Oil Sands



Palm Oil



Pesticides



Pork Products



Predatory Lending



Private Prisons



Riot Control



Shale Energy



Small Arms



Thermal Coal



Tobacco Products



Whale Meat



White Phosphorus

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There is a risk that the issuers selected to support client sustainable objectives may not perform as expected in addressing sustainability considerations or such performance may change over time, which could cause a client account to temporarily hold securities that are not in alignment with the account's sustainable objectives. Further, there is a risk that information used to evaluate ESG criteria may not be readily available, complete or accurate, which could negatively impact an account's ability to apply its sustainable objectives. In managing client's sustainability objectives, PFM Asset Management may rely on analysis and ratings provided by third parties in determining whether an issuer meets an account's sustainability objectives. A client's perception may differ from PFM Asset Management's or a third party's on how to judge an issuer's adherence to client's guidelines.

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NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE



County of Yolo

www.yolocounty.org

TOM HAYNES
Chief Financial Officer
EVIS MORALES
Deputy Chief Financial Officer

DEPARTMENT OF FINANCIAL SERVICES

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- Financial Leadership
- Budget & Financial Planning
- Treasury & Finance
- Tax & Revenue Collection
- Accounting & Financial Reporting
- Internal Audit

FINANCIAL OVERSIGHT COMMITTEE STAFF REPORT

DATE: September 12, 2024
ITEM: 12
FROM: Tom Haynes, Chief Financial Officer
SUBJECT: Socially Responsible Investment Strategies

On August 27, 2024 the Yolo County Treasurer's Report on Investments for the quarter ending June 30, 2024 was presented to the Board of Supervisors. Prior to the Board Meeting, several Yolo County residents emailed the Board asking the County to divest from certain companies operating in Gaza that have been identified by the United Nations High Commissioner for Human Rights (UNHCHR) as being at risk of being complicit in human rights violations. The issue was subsequently referred to the Financial Oversight Committee for further consideration.

The request by the Yolo County residents (attached) falls into a broader investment approach known as Socially Responsible or Environmental, Social, and Governance (ESG) investing. ESG investing is an investment strategy that seeks to either target or avoid investment in specific companies or organizations based on certain environmental, social, or governance factors. Example of ESG investment strategies may be to only invest in companies that are carbon neutral, or to avoid investment in companies that engage in weapons manufacturing and distribution.

While ESG investing has become more popular in recent years, particularly among individual and institutional investors, it poses certain challenges for local governments in California, particularly for counties. While there are a number of local agencies that have incorporated ESG strategies or criteria into their investment policies, there are a number of factors that need to be carefully considered. A few of these factors are highlighted and discussed below.

- Investment of public funds by California counties is governed by state law. While state law does not prescribe any particular investment strategy or rate of return, Government Code § 27000.3 states that counties are held to what is known as the "prudent investor standard". This standard requires that investment decisions be made with the care, skill, and prudence of a person with similar capacity and familiarity, given the character of funds, prevailing economic conditions and agency circumstances, to safeguard the principal and meet liquidity needs of

depositors (see CG § 27000.3(c)). Furthermore, Government Code § 27000.5 establishes that the primary objectives of investing public funds, in order of priority, shall be (1) to safeguard the principal of funds on deposit; (2) provide for the liquidity needs of the agency; and (3) achieve a rate of return. These objectives are commonly known as safety, liquidity, and yield. While it may be permissible to accept the risk of a reduced yield on investment as part of an ESG investing strategy, any potential ESG investment strategy must take care to comply with safety and liquidity requirements.

- Implementing an ESG investment strategy may negatively impact the County's overall investment return. This can happen in two ways. First, by imposing additional criteria, ESG strategies reduce the universe of investment options, which is already significantly limited by state law. Further limiting investment options may result in a less diversified portfolio and the inability to invest in maturities that may have more attractive yields. Secondly, if current investment holdings are sold before they mature, such as in the case of a divestment strategy as proposed by the Yolo County residents, the County may realize a market loss on these investments which could violate the prudent investor standard. Further analysis would be required to determine whether a specific divestment strategy would result in a market loss.
- In contrast to cities, counties play a special fiduciary role. While all local agencies are responsible for the stewardship of public funds, counties invest and safeguard funds on behalf of school districts, special districts, and other local agencies. As of June 30, 2024, more than 70% of the County's investment pool was composed of funds of other local agencies. These agencies may have different perspectives on the appropriateness of an ESG investment strategy, the criteria used in such a strategy, or whether they are willing to risk a lower investment return as a result.
- One of the most challenging aspects of implementing an ESG investment strategy is determining which companies and organizations meet the established criteria. Regardless of the specific nature of the strategy, ESG investing requires that additional criteria be incorporated into investment decisions beyond traditional credit and financial risks. Determining the appropriate scorecard for evaluating compliance with an ESG policy can be difficult and administratively complex. While utilizing third-party data sources, such as the list of companies identified by the UNHCHR, may make this process easier, the more criteria that are incorporated into an ESG investing strategy the more challenging it will be to administer. The Department of Financial Services does not currently have the staffing to administer a complex ESG investing strategy.

The issues discussed above provide some preliminary information that should be taken into account prior to considering any ESG investment strategy, including divestment from companies operating in Gaza as requested by the Yolo County residents. Due to the potentially significant time and effort that would be required to develop a comprehensive ESG investing policy, the Department of Financial Services requests further direction from the FOC and the Board on this topic.

Attachment

Julie Dachtler

From: Timur Mamedov <timuralr@gmail.com>
Sent: Monday, August 26, 2024 1:04 PM
To: Clerkoftheboard
Subject: Item 18 - Quarterly Investment Review

Dear County Board of Supervisors,

I am writing to respectfully object to Yolo County Board's extensive holdings in **Caterpillar, Inc.** and various financial institutions (\$23 million worth - broken down below) in light of the recent warning issued by the United Nations High Commissioner for Human Rights (UNHCHR) that these companies risk being complicit in genocide if they continue to help arm and fund the state of Israel. The UNHCHR issued this warning following findings by the International Court of Justice that there is "plausible evidence" Israel is committing genocide in Gaza and after the prosecutor for the International Criminal Court sought arrest warrants for Israeli Prime Minister Benjamin Netanyahu and Defense Minister Yoav Gallant for committing war crimes in Gaza.

<https://www.ohchr.org/en/press-releases/2024/06/states-and-companies-must-end-arms-transfers-israel-immediately-or-risk>

According to the latest quarterly investment report found on Yolo County's website, dated March 2024, the Board has invested about \$7 million in Bank of America, \$3 million in State Street, \$8 million in JP Morgan Chase, \$1.5 million in Citigroup, \$0.5 million in BlackRock and \$3 million in Caterpillar Financial Services, a wholly owned subsidiary of Caterpillar, Inc. The office of the UNHCHR explicitly warned these companies to cease aiding the Israeli government due to a provision in the UN Convention on Genocide, ratified by the U.S. government, that makes complicity in genocide a crime as well as the crime of genocide itself.

There is ample precedent locally for taking this step of divestment. More recently, the cities of Alameda, Hayward and Richmond have passed resolutions divesting from any companies complicit in the Israeli genocide. Israel's use of Caterpillar D9 bulldozers to destroy Palestinian homes in Gaza and to dig mass graves are war crimes. One particularly shocking video (as part of abundant documented video evidence) shows three Palestinian men waving white flags who were summarily executed by Israeli soldiers and then buried in graves dug by D9 bulldozers. Under the UN's Guiding Principles on Business and Human Rights, corporations like Caterpillar are obligated to practice "due diligence" to ensure that its products are not used in human rights violations. Caterpillar has not done so, even in the midst of a genocide, and this was the reason why Norwegian pension fund KLP sold a \$69 million stake over fears that Caterpillar bulldozers are contributing to 'human rights abuses' against Palestinians.

The County acknowledges that it has a responsibility to uphold the Public Trust in choosing what to invest in. The County's own Investment Policy states that "All participants in the investment process shall seek to act responsibly as custodians of the public trust." Thus, the Board should be risk averse in regard to any investments that aid the Israeli government's practices of apartheid and genocide, as amply documented by many human rights reports. Any investment supporting the state of Israel is inherently risky in light of the potential ramifications of criminal prosecution and international sanctions on Israel.

Just last month, the International Court of Justice found Israel guilty of apartheid against Palestinians and its military occupation and annexation of Palestinian territory to be illegal. This means that all states, local governments, corporations and institutions must immediately end all forms of complicity with Israel's illegal military occupation, its ever more brutal genocide in Gaza, and the root cause of all this: Israel's 76-year-old regime of settler-colonialism and apartheid.

I therefore urge the Board to cease investing in above companies so long as they ignore UN's warnings and to terminate the current investments as soon as possible. I also urge the Board to establish a human rights screen that will prevent any future investments in corporations involved in human rights violations (see for example <https://investigate.afsc.org/>).

Sincerely,

Timur Mamedov
Yolo County Resident

[THIS EMAIL ORIGINATED FROM OUTSIDE YOLO COUNTY. PLEASE USE CAUTION AND VALIDATE THE AUTHENTICITY OF THE EMAIL PRIOR TO CLICKING ANY LINKS OR PROVIDING ANY INFORMATION. IF YOU ARE UNSURE, PLEASE CONTACT THE HELPDESK (x5000) FOR ASSISTANCE]

Julie Dachtler

From: Erica Ballinger <e_ballinger@att.net>
Sent: Monday, August 26, 2024 3:38 PM
To: Clerkoftheboard
Subject: time sensitive request re: investment review

Dear Yolo County Board of Supervisors:

I understand that an annual review of investments is on the agenda for tomorrow's board meeting. I am writing to share information with you about a current investment of concern, and to request prompt board action involving it.

I recently learned that the county has over \$3 million invested in Caterpillar, Inc. which has been a company of concern on human rights based grounds for well over a decade. As noted by Amnesty International, Caterpillar is non compliant with the United Nations' [Guiding Principles on Business and Human Rights](#) yet its shareholders have refused to take action to remedy their non-compliance, for example by restricting sales to parties engaged in ongoing and egregious violations of human rights.

As documented by Human Rights Watch and several other international human rights groups, Caterpillar's D9 weaponized bulldozers have for years been used to systematically carry out war crimes including in the illegal mass demolition of homes, schools, roads and other civilian infrastructure. D9s are also used to target unarmed civilians resulting in injuries and deaths, including the death of at least one known American peace activist. See [Human Rights Watch Letter to Caterpillar, Inc.](#)

Therefore, a growing number of entities have divested from Caterpillar on human rights based grounds. This includes local governments (for example the City of Hayward, City of Portland), pensions funds (TIAA-CREF and KLP- Norway's largest pension fund), religious denominations (Presbyterian Church USA, Unitarian Universalist Association, Quaker Friends Fiduciary, and others), as well as a long list of academic entities. (I'm writing this letter quickly to meet the deadline, however, happy to share additional resourced on any of the above.)

As taxpayers we expect Yolo County to be a good steward of our tax dollars by investing both soundly and ethically. Please review the County's investment policy to consider adding an ethical or human rights based screen on investments. I understand such a policy review would require time. For now, I urge the County to **at minimum** move to divest from Caterpillar, Inc.

My Jewish father (who was just a boy during the Holocaust) taught us that we must stand up and speak out in the face of injustice, even if it brings risk to ourselves as individuals. For it was only through silence and acquiescence that millions of Jews in Europe could be rounded up, packed into trains, and shipped off to extermination camps to be mass murdered. It is from this imperative that I write to you.

The decades long military occupation of Palestine, and now 10+ month genocide on Gaza, must come to an end. We have to work toward a future based on equality and justice for all people, rather than one rooted in subjugation, dispossession and repeated cycles of violence. I understand the board declined to consider a ceasefire resolution last winter because the majority felt it would be overstepping their role as a county board. However, County investments are certainly a matter of local concern.

I urge the County to invest our tax dollars in life, not death. Divesting from Caterpillar would be a good first step.

Thank you,

Erica

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Julie Dachtler

From: Nick Buxton <nicholasbuxton@gmail.com>
Sent: Monday, August 26, 2024 3:54 PM
To: Clerkoftheboard
Subject: Item 18 - Quarterly Investment Review - Time to divest from Caterpillar

Dear County Board of Supervisors,

I am writing to express my shock that Caterpillar is listed in your investments and urge you to divest and to instate an ethical investment policy.

Caterpillar is one of the most egregious companies involved in complicity with war crimes in the occupied territories of Israel. To be invested in such a company - at a time when the world can see an unacceptable campaign of brutality by Israel and what the International Court of Justice has declared a plausible genocide - suggests our county has no concerns about what we invest in.

I can't believe the County can be fine about the fact that Caterpillar's armored D9 bulldozers:

- have been used were also used extensively in Israel's attacks on Gaza which have involved a massive loss of life and destruction of schools, hospitals and cities.
- are routinely used to carry out extrajudicial executions of Palestinians where the bulldozer is used to destroy the house and bury anyone within it
- used by the Israeli military as "crowd control" weapons, which have injured children and unarmed civilian protestors
- most famously, in 2003, an Israeli D9 bulldozer [crushed to death](#) American peace activist Rachel Corrie as she attempted to defend a Palestinian home from being demolished while the family was still inside.

Yolo County's investment should not be used to support war crimes and should reflect our county's values and support for human rights and environmental sustainability. This is not just a moral issue but also a legal one. Just last month, the International Court of Justice found Israel guilty of apartheid against Palestinians and its military occupation and annexation of Palestinian territory to be illegal. This means that all states, local governments, corporations and institutions must immediately end all forms of complicity with Israel's illegal military occupation and the brutal genocide in Gaza.

I therefore urge the Board to cease investing in above companies so long as they ignore UN's warnings and to terminate the current investments as soon as possible. I also urge the Board to establish a human rights screen that will prevent any future investments in corporations involved in human rights violations (see for example <https://investigate.afsc.org/>).

Sincerely,

Nick Buxton
Yolo County resident

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Julie Dachtler

From: Sara Mitchell <sara.r.j.mitchell@gmail.com>
Sent: Monday, August 26, 2024 3:49 PM
To: Clerkoftheboard
Subject: Item 18 - Quarterly Investment Review

Dear County Board of Supervisors,

I am writing to request that the Yolo County Board divests its extensive holdings in Caterpillar, Inc. and various financial institutions (\$23 million worth - broken down below) that the United Nations High Commissioner for Human Rights (UNHCHR) has found to be at risk of being complicit in genocide if they continue to help arm and fund the state of Israel.

<https://www.ohchr.org/en/press-releases/2024/06/states-and-companies-must-end-arms-transfers-israel-immediately-or-risk>

To protect our county and not be at risk of being complicit in a genocide divestment our investments in the following:

- \$8 million in JP Morgan Chase
- about \$7 million in Bank of America,
- \$3 million in Caterpillar Financial Services,
- \$3 million in State Street,
- \$1.5 million in Citigroup,
- \$1/2 million in BlackRock

The County acknowledges that it has a responsibility to uphold the Public Trust in choosing what to invest in. The Board should be risk averse in regard to any investments that aid the Israeli government's practices of apartheid and genocide, as amply documented by many human rights reports. With the International Court of Justice finding Israel guilty of apartheid against Palestinians and its military occupation and annexation of Palestinian territory to be illegal. If yolo county doesn't immediately end all forms of complicity with Israel's illegal military occupation, its ever more brutal genocide in Gaza, the county is complicit in the genocide.

Sincerely,

Sara Mitchell

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Yolo County Socially Responsible Investing Preliminary Research Memo

Zaid Arroyos & Katie Caceres

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Summary

Possible Policy Actions:

1. Status Quo
 - a. Continue with current investment policy focused on the most fiscally responsible outcomes, regardless of social or ethical quandaries.
2. Selective disinvestment
 - a. Consider each of our investments individually and decide on a case by case basis whether the company has ethical concerns that the county would no longer like to back financially. Investments that may have ethical or social concerns are listed in this memo (Note: there is no recommendation to disinvest in any or all current investment, they are simply listed here for the Board to consider and decide on themselves.)
3. Overarching socially responsible investment policy
 - a. A potential policy could look or include clauses like:
“To be considered for investment from Yolo County, all entities must demonstrate a commitment to social responsibility, in line with the standards set in this declaration.
Yolo County will not invest in entities that:
 - ***Collect a majority of gross revenue from tobacco products***

- *Collect a majority of gross revenue from alcohol products*
- *Collect a majority of gross revenue from gambling*
- *Collect a majority of gross revenue from weapons manufacturing*
- *Help to facilitate human rights violations or who allow their products to be used to facilitate human rights violations*
- *Directly contradict our climate goals as stated in the Climate Action and Adaptation Plan and/or collect a majority of gross revenue from the fossil fuel industry*

Should the Board of Supervisors decide to pursue a policy action that involves selling off currently owned assets, there are several avenues the Board can choose to follow in terms of reinvestment. If the Board decides to sell any asset, it should only do so when fiscally responsible, or when gains are realized.

Through PFM Asset Management, the investment adviser that Yolo County currently uses, Yolo can develop a customizable and flexible Environmental Social Governance (ESG) portfolio that can be molded to represent the social values that our county holds. Academic consensus on the subject suggests that sustainable investment strategies keep pace with, and often out pace the gains of traditional market indexes and the county should be able to confirm this by asking PFM to develop a report or presentation on what our assets would look like if we had a socially responsible investment policy for the past few years.

Alternatively, there are other high performing ESG ETFs that the county can invest in from companies such as Vanguard (13% average annual yield since 2018). The county can also invest in an ESG mutual fund from a company such as Fidelity (15.65% average 5 year return).

Yolo can also just reinvest realized gains into our current highest performing assets as determined by the Department of Financial Services.

Holdings that may need to be divested from

Particularly egregious investments (not including banks) are highlighted in yellow.

Banks are considered separately, and highlighted in green. Companies which are marked with *s were called out directly by constituents.

- *Caterpillar INC
 - 0.7% of Yolo County's market value

- The Israeli government uses militarized Caterpillar equipment in the demolition of homes in Gaza, construction of illegal settlements in the West Bank, and construction of barriers and checkpoints.
(<https://investigate.afsc.org/company/caterpillar>)
- Their products are also used by the US private prison industry and in construction at the border.
- *Citigroup
 - 1.7% of Yolo County's market value
 - They are the 2nd largest fossil fuel funder in the world with nearly \$400 million in financing for fossil fuel projects since 2016
(<https://www.fossilbanks.org/fossil-banks?bank=citi>)
 - CitiGroup also has heavy financial ties to Israel, including financing a \$500 million bond at the start of the current conflict in Gaza, and owning stakes in two Israeli banks which finance the construction of illegal settlements in the West Bank. They have also provided billions of dollars of loans to support Israeli weapon purchasing
 - They were the last US Bank operating in South Africa during Apartheid
- Bank of America
 - 3.0% of Yolo County's market value
 - Finances Elbit Systems, the Israeli weapons manufacturer (undisclosed amount)
 - https://www.banktrack.org/company/elbit_systems
 - One of the largest fossil fuel funders in the world at nearly \$350 million in financing for fossil fuel projects since 2016 (https://www.fossilbanks.org/fossil-banks?bank=bank_of_america)
 - Heavily invested in private prisons in the United States and was the primary backer for Caliburn International (now Acuity International) which operated the largest migrant youth detention center in the United States
- *Blackrock Inc
 - 0.1% of Yolo County's market value
 - Responsible for deforestation, industrial activities responsible for the destruction, displacement, and encroachment upon indigenous lands, and oil spills.
(<https://blackrocksbigproblem.com/the-problems/rights-violations/>)
 - They are heavily invested in weapon's manufacturers
 - \$7 Billion in Lockheed Martin
 - \$10 Billion in Raytheon
 - \$4 Billion in Northrop Grumman
 - \$7 Billion in Boeing
 - \$3 Billion in General Dynamics
- *JP Morgan Chase
 - 3.2 % of Yolo County's market value

- Biggest funder of fossil fuels in the world with over \$430 million in funding towards fossil fuel projects since 2016 (https://www.fossilbanks.org/fossil-banks?bank=jpmorgan_chase)
- Mastercard
 - 0.9% of Yolo County's market value
- Microsoft Corp
 - 1.5% of Yolo County's market value
- Pepsico
 - 1.0% of Yolo County's market value
 - 3rd biggest plastic polluter in the world
- Target Corp
 - 0.5% of Yolo County's market value
 - Sells products using prison labor
- Toyota
 - 0.7% of Yolo County's market value
 - Vehicles used by IDF and Israeli security services
- Wal-mart
 - 0.6% of Yolo County's market value
 - Sells products using prison labor
- Adobe Inc
 - 0.74%
 - Anti-consumer practices such as making it difficult and expensive to cancel
- *State Street Corporation
 - Heavily invested in multiple weapons manufacturers
 - \$17 Billion in Lockheed Martin
 - \$12 Billion in Raytheon
 - \$6 Billion in Northrop Grumman
 - \$5 Billion in Boeing

What is ESG/SRI

Environmental Social Governance, or ESG is an investment criteria that considers how well a company safeguards the environment and/or community they operate in before committing to investing in them.

From Forbes:

Here's a closer look at the three criteria used to evaluate companies for ESG investing:

Environment. What kind of impact does a company have on the environment? This can include a company's carbon footprint, its abstinence from or mitigation of toxic

chemicals involved in its manufacturing and other processes and its pursuit of sustainability throughout its supply chain.

Social. How does the company improve its social impact, both within the company and in the broader community? Social factors include everything from LGBTQ+ equality to racial diversity in both the executive suite and staff overall, and inclusion programs and hiring practices. It even looks at how a company advocates for social good in the wider world, beyond its own limited sphere of business.

Governance. How does the company's board and management drive positive change? Governance includes everything from issues surrounding executive pay to diversity in leadership as well as how well that leadership responds to and interacts with shareholders.

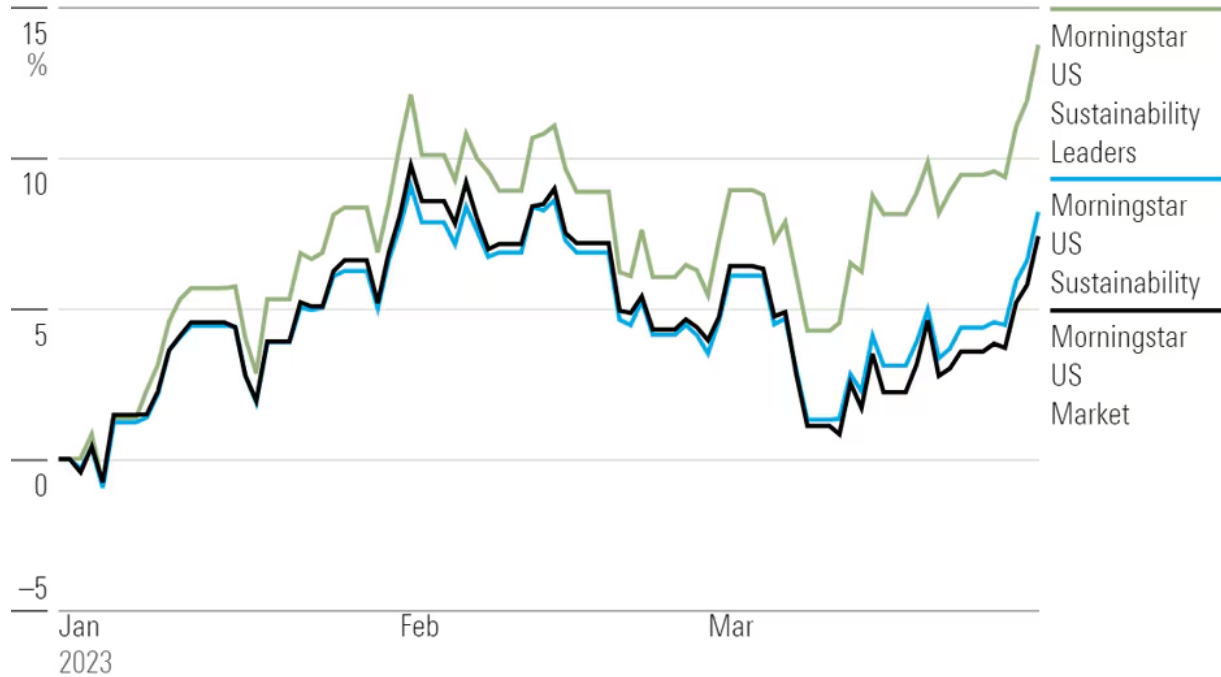
Socially Responsible Investing, or SRI is an investment strategy that focuses entirely on matching investments to your social values and using your power as an investor to support companies with focuses that align with your values.

The main difference between the two is that ESG takes fiscal consideration into what it would mean to not invest in these industries as opposed to capitalizing on a burgeoning industry that will become critical into the future.

Is ESG/SRI Fiscally Responsible?

According to multiple financial services, including Morningstar ESG indexes have run in line with and sometimes ahead of traditional market indexes.

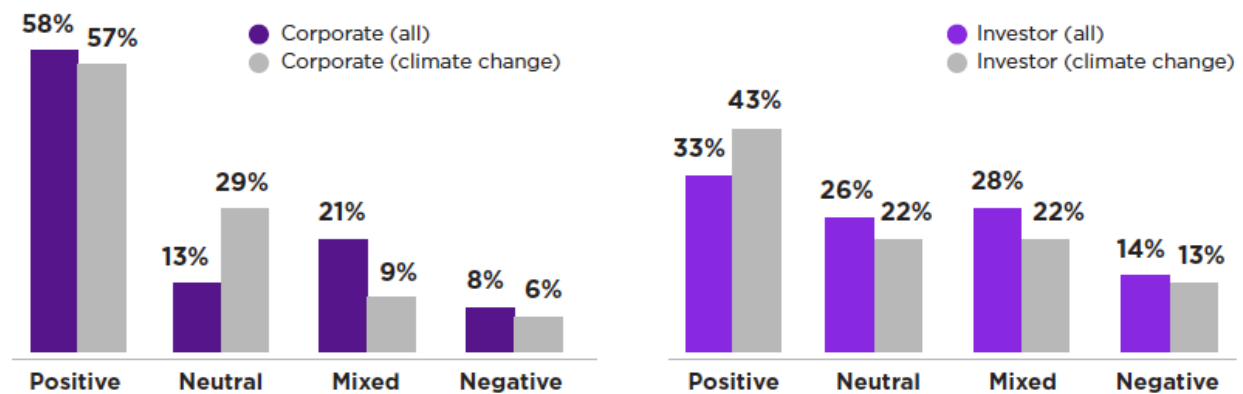
Q1 2023 Performance



Source: Morningstar Direct, Morningstar Indexes. Data as of March 31, 2023.

[Morningstar](#) claims their sustainability index to be “designed to reduce environmental, social, and governance risk (ESG) by targeting stocks with low ESG Risk Ratings, representing 50% of the Morningstar US Large-Mid Index by float market capitalization. The Index is rebalanced quarterly and reconstituted semi-annually.”

Figure 1. Positive and/or neutral results for investing in sustainability dominate. Very few studies found a negative correlation between ESG and financial performance (based on 245 studies published between 2016 and 2020).



According to a [meta-analysis](#) by the NYU Stern Center for Sustainable Business, which looked at more than 1,000 papers on the subject, 58% of studies on corporate financial performance with ESG found a positive relationship between ESG and financial performance with just 8% finding a negative relationship.

What Do Other Jurisdictions Already Have In Place

- Apartheid and Fossil Fuel divestments can be used as templates if Yolo County decides to move forward with this.
- **City of Davis:** City Investment Policy, Section 11:
 - Investments are to be made that will bear in mind the responsibility of city government to its citizens. Investments that support community well-being, promote equality of rights, and that promote community economic development will be given full consideration.
Further, no investment is to be made in a company that receives more than 51% of gross revenues from the production or manufacture of fossil fuels, weapons manufacturing, cigarettes, alcohol, or gambling products
- **Boulder County** came up with a divestment toolkit for local governments (should still be applicable, though it's about decarbonization in particular):
 - <https://assets.bouldercounty.gov/wp-content/uploads/2023/09/From-Dollars-to-Decarbonization.pdf>
 - It deals with pension funds, proxy voting policies, divestment risk and implementation, has examples and templates for resolutions/letters/articles related to divestment, insurance, banking,
 - There are case studies of real cities in the document, including one using Davis' switch from Wells Fargo to River City Bank.
- **Multnomah County** climate divestment
 - Resolution: <https://multco-web7-psh-files-usw2.s3-us-west-2.amazonaws.com/s3fs-public/2015-104%20Divestment%20Resolution%20with%20note.pdf>
- **City of Portland** unanimously passed a nonbinding protest resolution to divest from Israel over the county's continued killing of Palestinians in Gaza.
 - However, the city finance director says that the city has no current investments in any of the listed [companies](#).
 - The resolution urges divestment "when it is feasible and carries no financial penalty to the City."
 - <https://portlandme.portal.civicclerk.com/event/7306/files/attachment/23949>
 - The mayor primarily sees it as a conversation starter and moral stance, rather being a means of true financial pressure
- **Cuyahoga County** introduced (but ultimately [withdrew](#)) a resolution that would halt additional bonds/investments into Israel and other foreign securities. It would not divest their current investment of \$15 million in Israeli [bonds](#).
 - https://www.clevelandjewishnews.com/news/local_news/cuyahoga-county-resolution-seeks-to-end-israel-bonds-purchase/article_d506ce4e-23fc-11ef-94e4-fb715c80bce6.html

- **Alachua County** divested from all [corporations](#) (including those supporting Israel), and reinvested in preservation capital, like treasury bills. They deny that there was any ideological motivation for this move, due to Florida’s restriction on the influence of social factors on financial decisions.

Different Methods/Degrees of Divestment

- Divestment, as defined by Britannica [Money](#):
 - “the withdrawal of new corporate investment, withdrawal of available credit from banks, the selling off of operating units, the cutting off of operations, and the reduction of portfolio holdings in firms doing business in the target country.
 - Sanctions, selective purchasing, and divestment are additional actions that can be used along with divestment to bring about political, economic, and social reforms in a targeted country.
 - Another strategy, constructive engagement, is the continuation of economic activity between a corporation or government and a targeted country.”

There are different levels of divestment:

- **Selective Delayed Divestment:** the county would stop buying selected new stocks/bonds/etc, but leave its current investments until they mature, and liquidate/sell once they do. At this point, certain financial interactions with the problematic institutions would cease. Some categories of assets may be exempt, or the county may specifically target the most complicit/actively harmful institutions for divestment.
- **Selective Immediate Divestment:** the county would immediately withdraw/sell/liquidate selected assets with the problematic entities, regardless of early-withdrawal fees/lack of maturation. It would limit entering into new financial interactions with the problematic institutions. Some categories of assets may be exempt, or the county may specifically target the most complicit/actively harmful institutions for divestment.
- **Blanket Delayed Divestment:** the county would stop buying new stocks/bonds/etc, but leave its current investments until they mature, and liquidate/sell once they do. At this point, all financial interactions with the problematic institutions would cease.
- **Blanket Immediate Divestment:** the county would immediately sell/liquidate its assets with the problematic entities, regardless of early-withdrawal fees/lack of

maturation. It would not enter into any new financial interactions with the problematic institutions.

International Legal Ramifications

- The United States is not party to the International Criminal Court and therefore cannot be tried or bring charges against any other entity within that court.
- The United States is party to the International Court of Justice; however the US withdrew its declaration recognizing the court as compulsory in 1985.
 - Despite reports and charges by the ICJ alleging violations of human rights by Israel in Gaza, it is highly unlikely that anybody can or will face any consequences through an international court, especially not the United States government, its companies, investors, or citizens.

Other Considerations

- Yolo does not hold a significant enough stock fraction for its votes as a shareholder to make a significant difference/be substantially influential.
 - Based on lack of action over shareholders' climate concerns, prior to the shareholders' divestment, it does not appear that companies' actions are significantly influenced by non-major shareholder engagement.
 - Thus, keeping the shares to exert influence over the companies is not a more efficient avenue for raising moral objections.
- Studies have shown that divestment efforts, especially before they become widespread, do not have an outsized effect on company behavior or stock [prices](#).
 - This is due, in part, to the fact that selling shares simply reallocates shares from socially conscious investors, to indifferent ones.
 - If every investor thinks this way, critical mass will never be reached.
- The purpose of divestment is largely *not* to bankrupt corporations, nor is that feasible. The goal is to:
 - Send a moral message to policymakers;
 - Stigmatize partnerships/doing business with the company, in the hopes of influencing their operations for fear of losing too much business;
 - Send a moral message to the company itself, in the hopes of influencing their operations directly;
 - To extricate Yolo County's financial interests from the outcome of the Israel-Gaza conflict.
 - Divestment from morally problematic assets also frees up capital to be reinvested in ethically/environmentally conscious ways, elsewhere.

- State law requires that counties not liquidate assets at a loss (ie: safeguard the principal of the funds). However, all of Yolo's investments have *increased* in value according to the listed market value percentages listed on [page 22](#), so this may not affect us.
 - Uniform Prudent Investor Act: <https://law.justia.com/codes/california/2009/prob/16045-16054.html#:~:text=16047..care%2C%20skill%2C%20and%20caution>.
 - Code, section 27000: <https://law.justia.com/codes/california/2009/gov/27000-27013.html>
- Divestment would likely be a multi-step process that'd need to be passed with the county, school boards, and cities. So these first steps should be made simple, to get the ball rolling.