



March 15, 2018

Memorandum

To: Allen Baldwin, City Treasurer
Jason Simpson, Director of Administrative Services
Nancy Lassey, Finance Administrator
City of Lake Elsinore

From: Sarah Meacham, Managing Director
Richard Babbe, Senior Managing Consultant
PFM Asset Management LLC

Re: Investment Policy Review

At your request, we reviewed the City of Lake Elsinore's (the "City") Investment Policy (the "Policy") as part of the City's review process. As written, the Policy is in compliance with the California Government Code (the "Code") sections that govern the investment of public funds.

Although no changes are required, we are recommending one change that we believe will prudently enhance the City's investment options. Our recommendation is summarized below. In addition, we have attached a redlined version of the Policy to illustrate our recommendation.

14.J. Negotiable Certificates of Deposit. We would like to recommend the City revise this section's credit rating requirements to permit the purchase of Negotiable CDs in the "A" rating category. As Negotiable CDs have credit characteristics similar to or better than medium-term notes, we believe it makes sense for them to have similar credit requirements. Furthermore, unlike medium-term notes, there are no credit rating requirements for Negotiable CDs in the Government Code.

In the current market, Negotiable CDs are a key component of the portfolio's investment portfolio. In addition to potentially modestly increasing the portfolio's return potential, the recommended policy change would increase the number of issuers available to the City, which will provide opportunities for increased diversification, thereby reducing the City's exposure to any one corporate issuer.

We would welcome the opportunity to discuss this proposed change in more detail. Please let us know if you have any questions or if you would like to set up a time to discuss.