SAN MATEO COUNTY TREASURY OVERSIGHT COMMITTEE

MINUTES

Monday, October 27, 2025

1. **CALL TO ORDER**
   The meeting, in person and via MS Teams, was called to order at 12:05 p.m. by Daneca Halvorson.

2. **ROLL CALL**
   Members and guests were asked to introduce themselves by name and title during roll call.

   MEMBERS IN ATTENDANCE:
   Daneca Halvorson, Chair (City of Daly City)
   Virginia Chang Kiraly (San Mateo County Harbor District and Menlo Park Fire Protection District Board)
   Stephanie Osaze (Bay Area Air Quality Management District)
   Robert Manchia (San Mateo County Executive's Office)
   Connie Mobley-Ritter (Public Member)

   STAFF IN ATTENDANCE:
   Tiffany Htwe (Treasurer's Office)
   Angela Moreno (Treasurer's Office)
   Gerimar Tabbay (Treasurer's Office)

   MEMBERS OF THE PUBLIC IN ATTENDANCE:
   Chris Harris (PFM)
   Meredith LaBuda Sullivan (PFM)
   Nancy Jones (PFM)
   Allison Kaune (PFM)
   Riddhima Hinduja (PFM)

3. **APPROVAL OF MINUTES – February 24, 2025**
   Robert Manchia made a motion to approve minutes from May 19, 2025, meeting and seconded by Virginia Chang Kiraly. The meeting minutes were unanimously approved.

4. **TREASURER'S REPORT – Sandie Arnott (Treasurer-Tax Collector, SMC)**
   Angela Moreno reported the annual audit was completed, and no exceptions noted.

5. **CMTA INVESTMENT POLICY CERTIFICATION PROGRAM – Tiffany Htwe (SMC)**
   Tiffany Htwe announced the investment policy for the Treasurer's Office has been certified by California Municipal Treasurer's Association (CMTA) board, and the cost for this one-time certification was $175. The County is not changing the policy but strengthening it by refining some of the details. The updated policy with proposed changes will be presented to the Board of Supervisors on January 6, 2026.

6. **INVESTMENT REPORT - Tiffany Htwe (SMC), Ken Schiebel & Meredith Sullivan (PFM)**

Tiffany Htwe reported as of September 30, 2025, the County investment portfolio's total is approximately $8.19 billion in par value and $8.14 billion in market value, which reflects the market gain of about $106.8 million over the cost. The positive variance indicates the continuous stability and favorable market positioning despite the ongoing interest rate fluctuation. The portfolio continues to be jointly managed by the Treasurer's Office and PFM. The County manages around $3.55 billion of the portfolio, and PFM manages $4.59 billion. Both portfolios are well diversified and aligned with the County's investment objective for safety, liquidity and yield.

Tiffany continued by presenting the County's cash flow trends over the past 24 months. She explained that the investment team conducts an annual comprehensive review of historical cash flow data to monitor monthly payment patterns and to project liquidity needs for the upcoming year. Throughout the year, the team makes periodic adjustments to reflect changes in cash positions as well as actual inflows and outflows across County departments. She noted that this ongoing analysis supports maintaining adequate liquidity while optimizing investment opportunities within established limits. Overall, Tiffany reported that the County remains on a positive trajectory with steady quarterly growth.

Additionally, Tiffany explained the strategy of the cash management portfolio, noting that funds are held in County banks and that the accounts are primarily structured to meet daily and short-term operating needs without the need to liquidate long-term investments. She stated that the portfolio is actively managed to balance liquidity and return through the use of short-term investments, including certificates of deposit (CDs) through PFM, government agencies, local government investment pools (LGIP) such as CAMP and CalTrust, and other market options such as Dreyfus. Tiffany reported that the estimated average yield for the quarter is 4.35%. Overall, she noted that the investment pool remains strong, diversified, and compliant with both state code and the County's investment policy. She added that staff continues to prioritize safety and liquidity while seeking competitive returns through disciplined management and collaboration with the PFM team.

Chris Harris introduced himself to the committee noting that he is the head of the portfolio strategies group for PFM, and provided an overview of the market update. Chris mentioned that at a high level, the economy is still resilient but filled with uncertainty. He also noted the following:

- the labor market softened;
- inflation remains above the Federal Reserve's 2% target;
- credit card balances are growing; and
- student loan delinquencies are increasing after the Department of Education resumed collection efforts in May 2025.

We also have the impact of planned federal spending cuts as part of the tax and reconciliation bill, which are projected to increase in 2026 and intensify over the next few years. The inflation passed through of tariffs has been slower than expected making it easier for consumers to digest the high price increases. Though the labor market is soft, we still see strong, real disposable income growth because consumer spending has remained resilient. Chris believes there is a low risk of recession that will likely be supported by the impact of the Federal Reserve continuing to ease policy and lower interest rates as well as the benefits from the tax and reconciliation bill, which are expected to be realized at the beginning of 2026.

Currently, we are on the 27th day of the government shutdown making it the second longest shut down in history, and it is predicted that it will last for another couple of weeks. The Federal Reserve has been relying on private data releases and anecdotal surveys to try to guide its decision-making process. As a result, the Federal Reserve has some challenges balancing their dual mandate of maximum employment and stable prices because the inflation is still running above their target. Chris explained that the labor market is undoubtedly softening because the headline consumer price index (CPI) bottomed out at 2.3% on a year-to-year basis in April 2025, but it has steadily climbed back to 2.9% as of August. Core CPI, which strips out some of the volatile food and energy components from headline CPI, bottomed out at 2.8% but has increased to low 3% range. The headline and core CPIs are above the Federal Reserve's 2% target. Despite the government shutdown, the recent CPI reading as of Friday, October 24, 2025, both are coming in a little lower than expected at 3%. We are still seeing tariff pass through remain relatively contained, but they are starting to appear in some important land categories such as toys, apparel and appliances but has taken longer for those pass throughs to materialize.

As for the labor market, it is still no hire no fire environment with weakening job growth, but layoffs are also on the low end. The job openings and labor turnover survey from September 30, 2025, shows the number of unemployed workers exceeded the number of job openings. For the first time since post pandemic, more people are looking for jobs than they are available. However, the rate of people being fired and laid off is unchanged. In the last three months, there were 88,000 new jobs created and average of 29,000 new jobs per month, which is significantly below the data from 2021 and 2024. The unemployment rate is still below the average at 4.3% because the labor force is declining due to significantly lower immigration. With the unemployment rate and job creation combined, they are pointing toward a less dynamic and softer labor market that has increased downside risks. The concern of unemployment rate increase and job creation decline motivates the Federal Reserve to cut the overnight rates by 25 basis points in September.

Furthermore, the treasury yields remained above 5-, 10- and 20-year averages. While the trajectory of yield is lower with the Federal Reserve starting its easing cycle, yields are still attractive. Most forecasts are for the 2-year treasury yield to continue to move lower and settle in the 3.3 to 3.4 range, therefore it is still a good time to lock in yields and extend the duration of investments out the curve. The treasury yield curve moved lower roughly 10 to 15 basis points throughout the course of the quarter, and we will continue to see the yield market of the portfolio converge and move closer to the book yield of the portfolio.

Lastly, Chris mentioned that the Federal Reserve met in September 2025 for the Federal Open Market Committee (FOMC) meeting. The Federal Reserve's 25 basis point rate cut last month was framed as a risk management cut due to the growing labor market concerns. Their projection for June 2025 was lowered by 25 basis points which signals that the Federal Reserve's projection shows more rate cuts this year. Chris is expecting another rate cut in December based on the incoming data, but it is uncertain because we are not getting any new data due to the government shutdown.

Meredith Sullivan presented updates regarding our portfolio and showing the breakdown of the County's aggregate funds and various strategies that we have in place. She reiterated that the top priority is to ensure liquidity but also to generate high quality returns that will continue to benefit the County over time. At the end of September, we had a little over $8 billion in total funds allocated across these strategies: Short-term Portfolio, Liquidity, CAMP TERM, PFMAM Managed Short-term and Core Portfolio. Short-term portfolio and Liquidity are managed internally by the County, and these funds are targeted at short maturity and government type asset classes. CAMP TERM is a short-term investment vehicle that PFM offers. PFMAM Managed Short-term is managed by Meredith on the County's behalf, and it targets short to shorter duration securities but focuses on credit such as certificate of deposits and commercial papers. The core portfolio is also managed by

Meredith, and it focuses on broad diversification and holds securities with maturities that range between 1 and 5 years.

The current aggregate market value is about $8.1 billion, and the core portfolio accounts for $4.3 billion of that total with a duration of 2.17 years. The yield at cost has increased to 3.73% from May's 3.41%. While yields are lower overall since May, we still own ultra-low yielding assets in the portfolio. As we continue to reinvest in current higher prevailing market rates, the yield measure continues to rise. We continue to be well diversified in our allocation and credit quality because we focus on high quality issuers that offer safety, liquidity and good relative value.

Meredith continued showing the evolution of the sector's allocation over time. The composition of the portfolio doesn't have significant changes, but one noticeable change is the reduction in Yankee CDs. CD's maturity nature is short, so as those securities mature, we redeploy the investments in other sectors resulting in a higher U.S. Treasury allocation than before. Corporate allocation continues to be an important part of our strategy, so it has been mostly stable throughout the years.

Furthermore, our buying efforts were focused mostly on corporate and longer maturity treasuries for our trade activity. Corporates that were purchased were primarily in the new issue market, which offers buyers benefits such as cheaper bonds than issuers' existing curve because issuers want us to participate and to sell bonds. Most new issue corporates are high quality names like Target, Home Depot and Pepsi, and the average yield of those purchases was 4.31%. The remainder of our buying efforts were in longer maturity U.S. Treasuries with the average yield of 3.77%.

Connie Mobley-Ritter commented she was pleased to see that we have eliminated asset-backed security investment in the current environment, but she inquired if there is any stability in asset-backed securities within the next 18 to 24 months for us to reinvest in. She also expressed concerns that with the increase in credit card delinquencies, student loans and auto loans, the investment must be secure and good premium to reinvest in asset-backed securities. Meredith responded that all our permitted SEC types, asset-back still offer good relative value, and the tranches that purchased are AAA rated and very secure, which offers a lot of collateral back up. She also noted that one of the benefits from the acquisition of US Bank is their credit research team. In addition to the issuer name, every name they have on their approved list shows the shelf level and is scrutinized under the microscope to ensure all those backstops have extra collateral included in the tranches they purchase. Meredith confirmed that if we are to purchase asset-backed securities, it would be safe and at the highest tier. If the committee approves, she can review and add new issues rotating some of the treasury allocation into high quality names in asset-backed sector while being mindful of delinquencies and student loans.

Meredith summarized the corporate strategy, noting that corporates remain a key portion of the portfolio but that the current outlook is negative. She explained that the strategy is guided by fundamentals, technicals, and valuations, adding that while corporate balance sheets remain strong and near-term default risk is low, pressures from tariffs and slowing growth have led to a more cautious view on industrials compared to financials. She noted that technical demand for corporate bonds remains strong; however, valuations are elevated, with spreads near 12-month tights and limited incremental yield. Given rising risks such as inflation, slower growth, and a less supportive FOMC, she stated that wider spreads and better buying opportunities may emerge in the future, and the firm is maintaining a cautiously aggressive posture toward the corporate sector.
Meredith further discussed about the duration of the core portfolio since 2023. She has been working to extend the duration close to 2.5 years target and buying longer maturity security, even though rates have started to fall. With the expectation of continued rate cuts and lower rates in the future,

Meredith pointed out that since 2023 the team has been gradually extending the core portfolio's duration toward a target of approximately 2.5 years. She noted that despite recent declines in interest rates, the strategy continues to focus on purchasing longer-maturity securities, as the expectation of further rate cuts supports locking in yields now before rates potentially fall further.

Meredith explained that extending duration allows the portfolio to lock in still-elevated, multi-generational high rates while reducing reinvestment risk and uncertainty around future cash flow reinvestment. She reviewed portfolio performance slides showing the relationship between book yield and market yield, noting that while market yields rose sharply during the Federal Reserve's 2022 rate hikes and book yield initially lagged, the gap has narrowed over time as the portfolio rolled over into higher rates. She stated that this trend is expected to continue, with book yield eventually surpassing market yield. Meredith also highlighted accrual-based earnings from 2020–2021 through today, explaining that earnings bottomed in 2022 but have since increased as yields at cost improved. She noted that year-to-date 2025 accrual earnings total approximately $107 million, significantly ahead of the prior year, demonstrating the positive impact of higher market yields and the team's investment strategy.

7. ORAL COMMUNICATIONS AND PUBLIC COMMENT

None

8. OTHER BUSINESS

None

9. ADJOURN

The meeting was adjourned at 12:44 p.m.

Daneca Halvorson (Chair)

Sandie Arnott (Treasurer-Tax Collector)