SAN MATEO COUNTY TREASURY OVERSIGHT COMMITTEE

MINUTES

Monday, May 18, 2026

1. **CALL TO ORDER**
   The meeting, in person and via MS Teams, was called to order at 12:03 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)
   - Kevin Bultema (Deputy Superintendent, Business Services Division)
   - Sandie Arnott (Treasurer-Tax Collector)
   - Connie Mobley-Ritter (Public Member)

   STAFF IN ATTENDANCE:
   - Tiffany Htwe (Treasurer's Office)

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

3. **APPROVAL OF MINUTES – February 17, 2026**
   Daneca Halvorson made a motion to approve minutes from February 17, 2026, meeting and seconded by Virginia Chang Kiraly. The meeting minutes were unanimously approved.

4. **TREASURER'S REPORT – Sandie Arnott (Treasurer-Tax Collector, SMC)**
   Sandie Arnott reported that Angela Moreno, Deputy Treasurer-Tax Collector, is no longer with the Treasurer-Tax Collector's Office. She also announced that the County of San Mateo has reached a new milestone of $10 billion in the investment pool. Tiffany Htwe recently conducted a comparison of reporting functions and the frequency of participant reporting among neighboring counties. The comparison highlighted that reporting practices vary among counties. Our County continues to provide monthly, quarterly, and annual reports in a timely manner to ensure all participants have regular access to information about our investment activities and progress.

5. **INVESTMENT REPORT - Tiffany Htwe (SMC), Ken Schiebel & Meredith Sullivan (PFM)**
   Tiffany Htwe reported as of March 31, 2026, the quarterly portfolio performance and liquidity are as follows:

- Par value: $9.78 billion
- Market value: around $9.67 billion
- Cost value: $9.67 billion
- Total accrued interest: $87.9 million
- Total net gain: $161.8 million
- Total net asset value: above par at $1.01
- Comparison between market value and cost value: above $73.9 million

The largest portion of the investments in our portfolio is in treasury notes, government agencies and United States (U.S.) instrumentalities, which supports our conservative investment strategy while maintaining strong liquidity. We maintain our liquidity through CAMP, CalTRUST, Dreyfus and other available short-term vehicles. The County's 24-months cash flow remains well positioned to meet anticipated seasonal cash needs. The investment pool analysis and trend on the eight-year average shows that the portfolio has been increasing $1.1 billion annually. As of March 31, 2026, the County managed $4.75 billion in portfolio allocation and liquidity including outstanding trades. Liquidity portion of the cash is around $433 million, which is approximately 4.41% of the overall portfolio, with an average yield of 4.1% for the entire portfolio.

We also found that we have greater yield opportunities in credit instruments, so Tiffany worked with PFM to shift $300 million to them to invest in corporate bonds, commercial papers and certificate of deposits (CDs). With the current elevated interest rate environment, we are selectively increasing exposure to high quality credits and credit instruments to provide an opportunity to enhance the portfolio yield. We also tried to improve the diversification while maintaining the prudent liquidity and credit standards. Lastly, we anticipate the administrative fees to be around four to five basis points for this fiscal year, so we waived the third quarter administrative fees for all participants.

Connie Mobley-Ritter inquired about the threshold for underlying credits of our investments, such as ratings and security level. Do we have enough money in the portfolio to take advantage of it and purchase investments that provide an increase in returns? Tiffany responded that our investments are AAA ratings, and we follow the approved guidelines in our investment policy. She believes the portfolio has sufficient cash; therefore, she constantly communicates with PFM to transfer the funds and seize new investment opportunities.

Tiffany inquired about the vehicle licensing fee (VLF) funding and how much we anticipate the shortfall would be. Robert Manchia provided an update on the VLF funding calculation, including its impact on school districts, cities, and the County. A potential shortfall of $245 million is anticipated, leaving $60 million to $70 million available to share between the cities and the County.

Chris Harris presented the market update stating that when we last met in February 2026, we focused on the labor market and inflation. The current focus of the market is on the Middle East and the Strait of Hormuz, and the dominant macro risk in the economy is the Strait of Hormuz because roughly 20% to 25% of global energy and oil flow through it. Chris displayed the outbound transit through the Strait of Hormuz before the beginning of the conflict on February 28, 2026, versus early May 2026. The traffic is effectively at a standstill through the Strait of Hormuz, and the ceasefire between the U.S. and Iran is a precarious position today. While it is still in place, it helps reduce the risk of further damage to production and storage facilities. The market predicts there will be a 33% chance that we will see a permanent peace deal between the U.S. and Iran by the end of June 2026, which means the market expects the conflict to continue.

Markets are projecting oil prices will lower eventually, but we do not expect to see oil prices fall until later this year or into next year. Even if oil prices decrease, the prices are expected to be around 20% to 25% higher than they were before the conflict. According to AAA, from February 27, 2026, to early May 2026, gas prices are:

- Average per gallon in California: $6.15
- Average per gallon in San Mateo County: $6.30
- National average per gallon: $4.46
- Least expensive rate per gallon: $3.86 in Georgia

Due to higher energy prices, consumers have less disposable income to spend on discretionary items. Lower-income households face the biggest impact because fuel and utilities take up a larger portion of their income.

Chris continued discussing the impact on higher energy costs on some of the inflation readings. At the time of printing, the consumer price index (CPI) headline inflation was at 3.3%, but the new reading as of few days ago showed a higher rate of 3.8%. From the Federal Reserve's perspective, they are focusing on the overflow into non-energy core categories. The core CPI is at 2.6% and was raised to 2.8% in April 2026. Both rates are moving away from the Federal Reserve's 2% target. When reviewing the contributions of CPI inflation month-over-month change, we can see the clear impact the conflict has on energy prices in March. However, inflation isn't appearing in many of the other categories such as services, goods or foods, but there are pressures in transport link categories like airfare and delivery. For example, we recently saw headline news about Spirit Airline's bankruptcy due to higher jet fuel prices. Food is also worth watching because prices for fertilizer components such as ammonia and urea have increased significantly due to the closure of the strait. While non-energy inflation is not strong enough to justify rate increases, the current inflation rate above 3% is still too high for the Federal Reserve to make an immediate cut. They are monitoring how energy inflation spreads to other sectors. They also can't address the root cause of inflation, so adjusting rates will not reopen the strait or help alleviate the pressure.

Chris proceeded to show how resilient the labor market has been. The average monthly payroll gains and Dallas Federal Breakdown estimates are pretty close to each other, which means we do not need many job creations because labor supply growth is pretty slow due to changes in demographics and immigration policy. The unemployment rate has gradually increased, but the expectation is that the unemployment rate will not spike. It is expected to top out in the mid- to high-4% range, which is low from a historic perspective. When comparing the labor market with the CPI inflation, the Federal Reserve faces a dilemma between a stable labor market that does not need support and renewed inflation risk from energy and other kinds of pressure. The tension will likely force them to keep interest rates steady for the foreseeable future.

Connie asked for comparable numbers for the state of California job creation and unemployment. Chris responded he would follow up with the answer after the discussion.

The next slide reviewed the real gross domestic product (GDP) growth over the last four quarters and economist forecasts for GDP for the rest of 2026. During the first quarter of 2026, GDP grew to 2% compared to 0.5% at the end of the fourth quarter of 2025. The bounce happened partly because the government spending dropped in the fourth quarter after the government shutdown ended. Net exports and private inventories continued normalization after some of the tariff disruptions that we saw earlier in 2025. The federal government often reviews fixed investments and personal consumptions because they reflect private sector demands and how businesses and

individuals are doing, and the private sector is still in a decent shape. Fixed investments have increased due to artificial intelligence, and that's expected to be a continued supporter for growth over the next couple of quarters. The data from the end of the first quarter showed that the conflict hasn't caused a drop in consumer spending, but it could also be due to the tax refund season in April. Spending behavior may change once the tax refund fades, summer driving season arrives and gas prices increase. The GDP forecasts show strong growth for the rest of the year. Most forecasts are reflecting 20% to 30% chance of a recession this year, but a downturn is unlikely to happen in 2026. The risk is that higher gas prices will reduce disposable income and discretionary spending. The longer the conflict continues, the greater the risk is. If consumer spending starts to falter, it could potentially impact the labor market, the broader economy and growth moving forward.

Connie asked how the rising cost of the federal debt affects the data shown. Chris replied that the Federal Reserve voted to keep the interest rates unchanged after its recent Federal Open Market Committee (FOMC) meeting in April, though they debated dropping the signal that the next move would be a cut. The federal government stated that the current strong, balanced labor market allows them to delay rate cuts and monitor how energy prices affect the broader economy.

Chris also reminded the committee that the FOMC's April meeting was Chair Powell's last meeting as the federal chair. Former Chair Powell said he plans to remain as a governor due to some ongoing political threats to the Federal Reserve's independence. The new federal chair is Kevin Warsh. He is scheduled to be sworn in on Friday, May 22. While Chair Warsh is more vocal advocating for rate cuts, the federal government does not operate on majority rule basis. He currently lacks the votes to force a change even if he wants to lower rates.

The next chart displayed how often there was a 25-basis point movement in 2026. On February 27, 2026, the market was pricing about two rate cuts this year, which is 50 basis points of easing from the federal government. Currently, the labor market is strong enough to keep interest rates steady, but it's too weak to handle another rate increase. From PFM's perspective, the federal government will not increase rates this year nor are they in a rush to cut rates moving forward. Chris noted that fewer expected rate cuts for 2026 pushed the two-year treasury yield higher, making it more appealing because the overnight rate is around 3.6%. PFM believes that the overnight rate is very likely to decrease over the next two years. Being able to purchase two-year treasuries above the overnight yield is a good way to lock in some of the higher yields.

As for the U.S. treasury yield curve, the rates reflect the market expectation for the economy and the federal government over the next few years at 3.68% in three months, 3.88% in two years and 4.01% in five years. The 10-, 20- and 30-year treasuries reflect the market's outlook on America's economic growth and fiscal health. At 4.94%, the 30-year yield is close to the top of the one-year range, signaling the market's concern over the unaddressed deficit growth. This also impacts the likelihood of an increased defense spending in the upcoming fiscal years due to the ongoing conflict in Iran. The yield curve is now upward sloping, providing higher yields as maturities extend from 3 months to 2 years and from 2 years to 5. This is a change from recent years, when longer maturities offered lower yields than in the short end. The current environment supports continuing to extend duration and taking advantage of opportunities in longer-maturity securities, as investors are being adequately compensated for the additional maturity.

Meredith LaBuda Sullivan presented the County aggregate funds in various strategies that are in place to ensure liquidity but also generate good high-quality earnings for the County. PFM manages PFMAM Managed Short-Term and PFMAM Managed Core portfolio, while the County internally manages a portion of the portfolio and various liquidity management tools such as

money market fund, CalTRUST, CAMP pool and CAMP terms. When considering the allocation holistically and based on their forecast of expected cash flow over the remainder of the year, we remain well positioned with ample of funds targeted at short maturity to meet any upcoming cash flow needs.

Meredith continued explaining the portfolio's statistics as of March 31, 2026:

- Aggregate market value: little over $9.7 billion
- Current gross earnings rate: 4.03%
- Overall duration: 2.47 years

The sector allocation across all of the funds emphasizes U.S. treasuries and agencies as well as our selected credit exposure and high-quality corporate notes, supranationals, certificate of deposits and asset-backed securities. We remain very focused on high quality issuers for our credit quality; we have 85% of our holdings in AA and AAA rating qualities. As for the maturity distribution of the aggregate portfolio, historically we remain front end weighted with about half of our assets targeted to maturity inside of one year because it's meant to support liquidity needs. However, we are also continuing to make progress investing further out the curve locking in current higher rates, which will boost earnings and continue to benefit the County over the coming years.

Connie asked for the County investment portfolio's net earnings and market rate because the definition of earnings rate has been changing over the past year. Tiffany responded that the net rate is 3.99% that we use to distribute all the interests, and she will provide more data after the meeting. Chris also noted that PFM has an independent 11-people credit research team who are responsible for creating and monitoring their approved list. The research team is independent from strategy and portfolio management. While the research team reviews and approves the credit names that go on the list, Chris and Meredith are involved as part of the independent credit risk committee deciding appropriate allocation limits for those individual credits. The approved list contains around 250 corporate issuers and roughly 20 to 30 asset-backed security issuers. In order for the names to be included on the list, they must present very minimal credit risk to the County and require unanimous consent from the entire investment team including part of the U.S. Bank risk management team. Chris offered to have a PFM's credit team representative join a future TOC meeting or a separate learning session to provide an overview of their process if this is an interest to the County. Connie noted that it would be good to meet with the credit team at least annually to have an in-depth review.

Meredith continued to review the evolution of our sector allocation from June 2024 to March 2026. Treasuries and agencies in combination with short-money market instruments continue to remain foundational for our liquidity posture, but there are some small shifts in our preferences for other sectors due to the market environment, our views on the relative value, and available opportunities on the market. From December 2025 to March 2026, the increase in corporate notes, certificate of deposits and asset-backed securities are notable. Interest rates and the market environment are still affected by the conflict in Iran. The team was very busy in March in response to the increase in volatility and opportunities that followed. As rates increase and spreads widened, we lean into high quality credit instruments that not only increase our diversification but also add good relative value to the portfolio. Meredith works closely with Tiffany to find ways to invest cash into those good opportunities.

Meredith proceeded to show recent trade activities for the PFMAM Managed Core Portfolio during the first quarter of 2026. The funds that we have are targeted for one to five years, and most of the sales or mature investments occurred at very low levels that freed up funds for reinvestment at material higher levels. The U.S. treasury's average yield of securities that matured or sold were

at 1.2% similarly to the federal agency at just 51 basis points. Because of the current environment, we were able to replace those low yields with purchases across various sectors at much higher yields. We added a little over $200 million to corporate notes, which has an average yield of 4.19% and average duration of purchases at 3.58 years. From PFM's perspective, credit fundamentals still remain sound, and current valuation in the sector offers a really attractive entry point to selectively increase our allocation. Many of the purchases came from new issue opportunities. Companies are still very active bringing new paper to the market, but we are still able to find good options in the secondary market. We added $17.6 million in asset-backed securities with an average yield of 3.89%. Even though we just restarted purchasing asset-backed securities, it continues to offer the best risk adjusted returns compared to other alternatives in the two- to three-year duration bracket. Supply has slowed down recently, but we will continue to evaluate available opportunities that fit our portfolio.

The higher rates entice us to extend the duration and invest further out the curve. Previously, the market was trying to discern the urgency in which the FOMC could cut rates. Currently, the market has experienced a complete pivot to questioning whether the next adjustment will be an increase or decrease in rates, but we continue to anticipate that the Federal Reserve's next move will be a rate reduction. The persistence of these supply disruptions will prompt the Federal Reserve to be patient and refrain from making any adjustments. In the current environment where there's many opportunities and higher rates, our duration and maturity positioning are expected to remain slightly longer than they have been. We anticipate that over the next few months the average maturity and duration will continue to increase to capitalize on those opportunities.

Lastly, Meredith showed the County's investment pool gross earnings rate compared to the three-year treasury rate from March 2021 to March 2026. The earnings rate has followed the path of interest rates over the past five years. In 2022 and 2023, the Federal Reserve aggressively increased rates to peak levels, and the earnings rate was also quickly climbing. Presently, we're in a holding phase while the Federal Reserve's next step remains unclear and interest rates stay paused. When the FOMC cut interest rates, our earnings rate will drop as investments mature and be reinvested at lower market rates, but the decline will happen gradually.

6. **ORAL COMMUNICATIONS AND PUBLIC COMMENT**
   None

7. **OTHER BUSINESS**
   None

8. **ADJOURN**
   The meeting was adjourned at 1:00 p.m.

Daneca Halvorson (Chair)

Sandie Arnott (Treasurer-Tax Collector)