



DECISION PAPER

November 17, 2020

TITLE:

Investment Policy Exception

RECOMMENDATION:

By Motion: Direct staff to hold the Notes through the January Board meeting (scheduled for January 22) at which time the Board can consider the appropriate action given that we will likely have a refreshed Investment Policy with a robust process to address investments that are no longer compliant with the minimum credit ratings requirement.

BACKGROUND:

The purpose of this Decision Paper is to seek the Board's approval to continue to hold a medium-term investment within the Development Fund that is no longer strictly in compliance with Tahoe Donner's Investment Policy ("IP"). This approval would be for a period of roughly 60 days until the January Board meeting now scheduled for January 22, 2020.

Tahoe Donner's current investment policy calls for any corporate bond in our portfolio to have minimum ratings of "A" from at least two of the three major rating agencies, Moody's, Standard & Poor's and Fitch Investors' Services. The investment in question, \$75,000 of 4% Senior Notes due 10/15/23 (the "Notes") issued by Intercontinental Exchange Group, Inc. ("ICE") rated A3/BBB+, by Moody's and Standard & Poor's respectively, is no longer policy-compliant due to a change in credit rating. Standard & Poor's recently downgraded the Notes to BBB+ (from A) as a result of ICE's completion of a large, debt-funded acquisition. The current IP calls for any corporate bond investment that fails the minimum ratings requirement to be "sold as soon as practicable".

ICE is a Fortune 500 company formed in 2000 that operates global exchanges, clearing houses and provides mortgage technology, data and listing services. The company owns exchanges for financial and commodity markets, and operates 12 regulated exchanges and marketplaces worldwide, including the New York Stock Exchange. It is a global market leader and has an equity market capitalization of roughly \$55 Billion.

Tahoe Donner purchased the Notes in 2014; our initial cost was \$77,903. Our yield to maturity is approximately 3.64%. (Our yield to maturity is less than the coupon on the Notes, 4%, because we purchased the Notes at a premium.) On October 31, 2020, the estimated market value of the Notes is roughly \$82,498 according to our investment advisor, Stifel, which implies an unrealized gain of \$4,595. Our Stifel advisor also stated that there is no imminent risk of principal loss on the investment.





Importantly, there is an in-process effort to update the Tahoe Donner investment policy. This was one of the projects that the prior Board assigned to the Finance Committee. A draft of the revised IP has been prepared by the Investments Working Group, has been reviewed by the Finance Committee, and will be discussed at the December Board meeting and likely approved at the January Board meeting. One particularly relevant proposed change in the draft policy is to permit us to continue to hold an investment that no longer complies with the minimum ratings requirements but only after a rigorous review process between the Director of Finance & Accounting, the Treasurer and our investment advisors.

ANALYSIS:

Members of the Tahoe Donner Investments Working Group (“IWG”) and the Finance Committee reviewed detailed credit agency rating reports and discussed the merits of continuing to hold the ICE Notes. At their meeting held on November 12, by a vote of 5-1, the Finance Committee recommended that the Board approve a one-time waiver of the minimum credit ratings requirement in the case of the ICE Notes and not require that they be sold. The Finance Committee made its recommendation because:

- The rating change was not due to declining performance of ICE, rather, it was due to ICE making an acquisition for which it increased its debt level;
- ICE continues to be viewed as a global market leader, is performing well and is highly regarded;
- ICE still maintains an “A” quality rating from Moody’s;
- The ratings agencies and our investment advisor see no real risk of loss of principal over our investment horizon (until 10/15/2023); and
- The yield on the Notes is well above current levels for a replacement investment of like term.

OUTREACH:

N/A

FISCAL IMPACT:

Due to the quick turnaround time of this Decision Paper, staff has not had an opportunity to do a full risk analysis of holding the notes for the next 60 days. However, based on the expertise of the IWG and their analysis completed to date, staff is supportive of their recommendation.





ALTERNATIVES:

There are two potential alternatives for the Board to consider:

1. Direct the management team to sell the ICE Notes as soon as practicable as called for by the current Investment Policy, or
2. Direct the management team to hold the ICE Notes indefinitely (effectively approving a permanent waiver of the Investment Policy’s minimum ratings requirements as it relates solely to the ICE Notes).

ATTACHMENTS:

- 1) Investment Policy 2015-5

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Reviewed by: David Mickaelian, General Manager 11/17/2020

Board Meeting Date: 11/20/2020

General Manager Approval to Place on the Agenda: _____

