



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Maria Öberg

SUBJECT: City of San José Investment
Policy Annual Review

DATE: March 17, 2026

Approved

Date:

3/20/26

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

At the February 19, 2026 Public Safety, Finance, and Strategic Support Committee meeting, Councilmember Kamei requested the Finance Department analyze the City's investments in Amazon, Alphabet, Caterpillar, Honeywell, and Microsoft in the following non-recommended, alternative scenarios:

1. Sell the investments immediately
2. Allow the investments to mature, and make no new investments in the companies identified
3. Divest and restructure the portfolio over time

BACKGROUND

Alphabet, Amazon, Caterpillar, Honeywell, and Microsoft have been identified by public commenters as companies that provide services to the State of Israel in its ongoing conflict in Gaza and support U.S. Immigration and Customs Enforcement.

Public commenters have noted there is precedent for removing certain types of investments, specifically identifying that in 2021, fossil fuel companies were proscribed. They contended that there was no impact to the City's portfolio yield.

The City's Investment Portfolio and most municipal treasury portfolios, are traditionally "buy-and-hold" portfolios, meaning that investments are purchased to meet future cash outflow needs and are intended to be held to maturity. The anticipated interest and principal payments are received as revenue within the City's various funds; in 2024-2025 the General Fund received \$15.5 million in interest earnings.

City Council and staff charged with managing the City’s investments, are trustees of the public purse and have a fiduciary responsibility to follow the governing principles of principal preservation, liquidity, and yield, respectively. State statute enforces a prudent investor standard on those authorized to invest public funds.

The City’s Investment Policy only allows for the purchase of U.S.-registered, dollar denominated bonds. Even for American corporations with international operations, staff can only purchase the U.S.-registered debt, rather than non-dollar denominated bonds.

A large majority of the corporate notes that staff is able to source come from the secondary market. This means that the City mostly buys from other investors who sell their positions. Additionally, the City has position limits on holdings in order to maintain diversification and reduce single credit risk exposure. The largest corporate position the City owns is \$50 million, about 2% of the total portfolio. Amazon has \$122 billion in bonds outstanding, and Alphabet has \$80 billion in debt outstanding. The City’s holdings are insignificant in comparison with overall corporate debt outstanding and the impact to the market will be undiscernible should the City decide to liquidate corporate note holdings. The City, after liquidating corporate holdings, will have to reinvest the proceeds at lower interest rates with the same or similar maturities.

The universe of high investment grade corporate bond issuers is small. Staff have reviewed and approved 29 corporate names. However, approval of the names does not mean that all of these issuers sell debt on a regular basis. In fact, many of these issuers do not have debt that trades regularly and thus, the City is not able to source the bonds. Removing five names, including ones that have a large amount of high investment grade debt and wide spreads, will materially impact the City’s investment earnings and reduce the source of funds for budget.

ANALYSIS

The following table lists the City’s holdings of the five companies as of February 19, 2026:

City Holdings as of 02/19/2026

CUSIP	Issuer	Par Held	Coupon	Purch Yield	Purch Date	Maturity	Book Value	Market Value	Unrealized Gain/(Loss)
023135BC9	Amazon	26,000,000	3.15	4.862	7/1/2024	8/22/2027	25,384,986	25,822,266	437,280
023135BC9	Amazon	5,000,000	3.15	3.835	10/4/2024	8/22/2027	4,951,518	4,965,820	14,303
02079KAC1	Alphabet	15,000,000	1.998	5.063	10/31/2023	8/15/2026	14,792,731	14,874,609	81,878
14913R3A3	Caterpillar	7,429,000	3.6	4.381	12/13/2022	8/12/2027	7,351,953	7,426,388	74,435
14913UUAU4	Caterpillar	10,000,000	4.7	4.476	12/10/2024	11/15/2029	10,074,314	10,290,625	216,311
438516BL9	Honeywell	5,000,000	2.5	4.42	12/13/2022	11/1/2026	4,939,090	4,957,031	17,941
438516CL8	Honeywell	35,000,000	4.25	4.316	1/19/2024	1/15/2029	34,897,100	35,384,180	487,080
594918BY9	Microsoft	8,436,000	3.3	4.272	12/2/2022	2/6/2027	8,364,235	8,409,967	45,732

Totals: 111,865,000 110,755,927 112,130,887 1,374,960

(1) Intramonth Market Value using BVAL as of 02/19/2026

- Amazon

Amazon is currently rated A1/AA/AA- by Moody's, Standard and Poor's, and Fitch. The company is headquartered in Seattle and has a significant footprint in Santa Clara County. It generated more than \$700 billion in revenue in 2025. It is not clear how much or what lines of business it operates in Israel, but it has no listed contracts with U.S. Immigrations and Customs Enforcement in 2025.

The City has spent roughly \$1.2 million in the past year on various products from Amazon.

- Alphabet

Alphabet is currently rated Aa2/AA+ by Moody's and Standard and Poor's. The company is headquartered in Santa Clara County and employs more than 45,000 employees locally. It generated more than \$380 billion in revenue in 2025. According to the New York Times, Alphabet has a cloud computing contract with the government of the State of Israel worth \$1.2 billion over seven years. This equates to an annual value of \$170 million or 0.05% of its annual revenue.

The City has no documented spending with Alphabet, but the City does have various agreements for the purposes of urban planning and parks, police training on Alphabet owned property, and data sharing to improve the effectiveness and efficiency of food donations. Additionally, Alphabet operates its Tasman 2 campus within city limits.

- Caterpillar

Caterpillar is currently rated A2/A/A+ by Moody's, Standard and Poor's, and Fitch. In the nine months ending September 30, 2025, it generated \$48 billion in revenue. Caterpillar breaks down its market segments by major geography, and Europe, Middle East, and Africa generated less than 20% of total revenue.

The City does not buy or rent equipment from Caterpillar directly, but has rented Caterpillar machinery from third-party rental facilities.

- Honeywell

Honeywell is currently rated A2/A/A from Moody's, Standard and Poor's, and Fitch. It generated \$37 billion in revenue in FY 2025. It is a manufacturer of industrial equipment, aerospace products, and advanced materials and process technology. The aerospace segment produces power units, propulsion engines, avionics, and safety and communication equipment, among other products. It is not clear to what extent it is a direct supplier to armed conflicts, although working aircraft can be used for military purposes.

The City currently has contracts with Honeywell for alerting systems, building automation, and lighting systems.

- Microsoft

Microsoft is currently rated Aaa/AAA/AAA from Moody's, Standard and Poor's, and Fitch. It generated \$280 billion in total worldwide revenue in FY 2025. According to USASpending.gov, it received \$600,000 from contracts with U.S. Immigration and Customs Enforcement in 2025. Microsoft specifically disabled the use of its products in Israel when it learned they were being used contrary to Microsoft's business principles and Israel's stated intentions.¹

Microsoft's products are the standard across the professional world. The vast majority of private corporations and public entities utilize the Windows operating system and Microsoft Office's suite of productivity tools (Microsoft Word, Excel, PowerPoint, Outlook). Microsoft SharePoint is widely used to collaborate and share documents.

The City currently has contracts with Microsoft for right of entry, data sharing, and licenses, among others. Additionally, the City purchases various Microsoft products through third-party distributors. Microsoft employs at least 3,000 people within Santa Clara County.

Scenario 1: Sell the investments immediately

If the City sold the investments as of February 19, 2026, the City would realize a gain of about \$1.4 million. Consequently, the City would have to reinvest the proceeds in other eligible securities, most likely U.S. Treasuries, and lose the excess interest of about \$2.0 million over the remaining life of these corporate bonds. This would represent a total overall loss of \$600,000 from selling the holdings immediately.

Scenario 2: Allow the investments to mature, and make no new investments in the companies identified

Allowing the investments to mature would allow the City to continue receiving coupon payments that are above the current prevailing market. However, the City will lose the opportunity to make additional investments in these companies for diversification and added income purpose in the future. As previously highlighted, there is only a limited universe of high-grade corporate bonds, and a prohibition on investing in five of the largest issuers (with their accompanying wide spreads) would result in lost interest in the future.

¹ <https://blogs.microsoft.com/on-the-issues/2025/09/25/update-on-ongoing-microsoft-review/>

Scenario 3: Divest and restructure the portfolio over time

This scenario is the most difficult to assess because market conditions change daily. Bond pricing is impacted by a number of macro and micro-economic factors in varying degrees and some factors can cause offsetting effect on investment actions. For instance, if interest rates go down, the bonds would receive a higher realized gain, but the funds would be re-invested at a lower yield. If interest rates go up, the bonds would receive a lower realized gain, or potentially a realized loss, but would reinvest the proceeds at a higher yield. Therefore, it is difficult to know what this outcome would be.

Investing in Corporate Notes

State law limits local agencies to purchasing high investment grade bonds. Companies become investment grade by selling goods and services to a broad customer base (often including domestic and foreign governments). These types of bonds pay roughly 30-50 basis points more in interest than similar maturity Treasuries.

The City's Investment Policy requires even more stringent credit standard for potential investment. To meet the requirements, staff follows an extensive and thorough credit review and monitoring process. It takes significant staff time to analyze a corporate credit and get it approved. After approval, staff monitors the credit development daily and provides a summary report annually to document changes of investment decisions. Despite a large corporate universe, the number of high-grade corporate names that issue in index eligible size is much smaller. The City has approved only 29 corporate names as eligible for investment and currently holds securities from 24 of them.

A consequence of selecting any of these three scenarios, monitoring and excluding corporate holdings based on the perceived actions of their customers would make administering the corporate bond program untenable. If the City were to not invest in corporate notes, it would cost the City roughly \$3 to \$5 million in lost interest income on an annual basis.

As many commenters noted on February 19, the City banned fossil fuel investments from the City's portfolio. However, this has not been without impact to the City. Chevron, ExxonMobil, and ConocoPhillips are highly rated corporate issuers. They continue to have large capital expenditure needs and are frequent issuers in the high-grade corporate bond market. These issuers tend to have wider spreads than other corporate notes of similar credit quality and it is not inconceivable that the City has lost 1-2 basis points of extra yield for the investment portfolio by not investing in these corporations. In term of dollars, that loss of interest income equates to up to \$450,000 annually.

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