



Legislation Text

File #: 08-0790, **Version:** 1

Recommendation to receive and file Investment Report for Quarter Ending June 30, 2008. (Citywide)

The Department of Financial Management, City Treasurer's Office, invests the City's funds in compliance with the California Government Code, Section 53600 et seq., and the City's Investment Policy. As of June 30, 2008, these funds had a market value of approximately \$1.8 billion, with approximately \$641.7 million, or approximately 35.2 percent of funds, maturing within six months, ensuring that sufficient funds are available to meet the City's cash and liquidity needs.

Compliance

All investment transactions have been executed in conformance with the City's Investment Policy and the California Government Code. According to the California Government Code, the maturity term of all investments is limited to a maximum of five years unless the local agency legislative body gives prior approval to exceed this limitation. The City's Investment Policy currently requires that all funds invested in the City's investment pool not exceed a weighted average maturity of three years. In addition, the Investment Advisory Committee, composed of the Assistant City Auditor, Assistant City Attorney, Director of Financial Management, City Treasurer, City Controller, and the Financial Officers of the Harbor, Water and Community Development departments, meets quarterly, or as needed, to review investment policies, strategies and performance.

Investment Pool Rating

We are pleased to report the City's investment holdings carry the highest credit rating of AAA and the lowest volatility rating of S1 by the Standard & Poor's rating agency. This rating confirms the safety of the City's invested funds and qualifies the Investment Pool as an alternative investment for proceeds from bonds issued by the City.

Investment Performance

The City Treasurer's Office invests in a variety of fixed-income securities that vary in maturity from one day to five years (excluding the Health SAVRS loan) as authorized by the City's Investment Policy and the California Government Code. The City's adopted 2008 Investment Policy divides the City's investment portfolio into a short-term and a long-term portfolio whose benchmarks are the 3-Month Treasury Bill and the Merrill Lynch One-to-Three Year Treasury/ Agency Index, respectively. Both are market indices that change daily, therefore, actual returns can vary depending on book yields and security calls before the final maturity date.

The weighted average book yield for the period was 3.80 percent. Book yield represents the actual earnings received on the total Investment Portfolio.

At June 30, 2008, the City's investment pool market yield was 3.38 percent compared to 3.86 percent at March 31, 2008. During the quarter, the short-term and long-term benchmark indices rose 0.42 and 0.91 percentage points, respectively, due to inflation fears related to rising costs of food and energy. The following table summarizes Investment Pool market yield performance for the quarter ending June 30, 2008:

Portfolio Funds	Amount of Funds	Quarter End Values		
		Benchmark Return	Weighted Avg Maturity*	Yield**
Short-Term Investment Pool	\$ 600,659,823	1.74 percent	1.13 years	3.02 percent
Long-Term Investment Pool	\$ 1,207,023,991	2.75 percent	2.12 years	3.56 percent
Total Investment Pool	\$ 1,807,683,813	2.41 percent	1.79 years	3.38 percent

* Weighted Average Maturity assumes securities are not called or sold prior to the actual maturity date. ** Market Yield of Portfolio at quarter end.

The following table summarizes the purchase yield of the new investments vs. the average Benchmark Yield in the short-term portfolio by month for the quarter ending June 30, 2008. We are pleased to report that the purchase yield of new investments outperformed the Benchmark yields:

SHORT-TERM PORTFOLIO

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark
April 2008	\$ 55,770,000	1.30 percent	3.78 percent	2.48 percentage points
May 2008	\$ 70,970,000	1.77 percent	2.95 percent	1.18 percentage points
June 2008	\$ 40,500,000	1.87 percent	2.65 percent	0.78 percentage points
Total Invested Funds *	\$ 167,240,000	1.64 percent	3.15 percent	1.51 percentage points

* 91-Day T-Bill and other returns listed are weighted averages for the period. Excludes overnight and short-term investments under 30 days. **Purchase Yields stated to maturity assume the securities are not called or sold prior to the maturity date.

The following table summarizes the purchase yield of the City's new investments vs. the weighted average Benchmark Yield in the long-term portfolio by month for the quarter ending June 30, 2008. We are pleased to report that the purchase yield of new investments outperformed the Benchmark yields:

LONG-TERM PORTFOLIO

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark
April 2008	\$ 149,985,000	2.20 percent	3.18 percent	0.98 percentage points
May 2008	\$ 83,935,000	2.54 percent	3.14 percent	0.60 percentage points
June 2008	\$ 53,620,000	2.88 percent	3.08 percent	0.20 percentage points
Total Invested Funds *	\$ 278,205,000	2.43 percent	3.15 percent	0.72 percentage points

* Merrill Lynch One-to-Three Year Treasury/Agency Index and other returns listed are weighted averages for the period. Excludes overnight and short-term investments under 30 days. **Yields are stated to maturity and assume the securities are not called or sold prior to the maturity date.

As of June 30, 2008, the City had approximately \$145 million invested in the State Treasurer's Local Agency Investment Fund (LAIF) pool. LAIF's weighted average quarterly yield was 3.11 percent,

which is down from 3.77 percent at March 31,2008.

A complete listing of investment balances, portfolio distribution and performance values can be found in Attachment A.

The City's investment pool consists of all City funds except certain bond and special assessment district proceeds. The non-pooled investments are invested separately in accordance with bond indenture provisions or other legal requirements.

Short-Term Investment Strategy

The City has adopted an investment strategy for the short-term portfolio that maintains sufficient liquidity within a rolling 12-month period to satisfy the City's cash needs.

Long-Term Investment Strategy

Due to the uncertainty surrounding the government sponsored agency securities, coupled with the high volatility in the credit markets, shorter investment maturities are more favorable.

Cash Management Goals

The City's cash management goals are to maintain and preserve the safety of funds in custody and provide adequate liquidity for anticipated expenditure needs.

This matter was reviewed by Assistant City Attorney Heather A. Mahood, Budget Management Officer Victoria Bell and the City's Investment Advisory Committee on July 25, 2008.

This item is not time critical.

there is no fiscal impact associated with this action.

Approve recommendation.

DAVID S. NAKAMOTO
CITY TREASURER

LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:

PATRICK H. WEST
CITY MANAGER