



Legislation Text

File #: 23-1023, **Version:** 1

Recommendation to receive and file the Investment Report for Quarter Ending June 30, 2023. (Citywide)

The City of Long Beach (City) Treasurer's Office in the Financial Management Department invests the funds in compliance with the California Government Code, Section 53600 et. seq., and the City's Investment Policy. As of June 30, 2023, these funds had a book value of approximately \$2.264 billion.

Statutory Compliance

All investment transactions have been executed in conformance with the City's Investment Policy and the California Government Code. The Investment Advisory Committee, composed of the Assistant City Auditor, Deputy City Attorney, City Treasurer, City Controller, and designated representatives from the Harbor and Water Departments, meets quarterly, or as needed, to review investment policies, strategies, and performance. All portfolio transactions as of June 30, 2023, can be found in the Investment Trading Activity (Attachment A).

Investment Strategies

The Investment Policy divides the City's investment portfolio into short-maturity, intermediate-maturity, and long-maturity portfolios. Their respective benchmarks are the Three-Month Treasury Bill Index, the ICE Bank of America Merrill Lynch (BAML) One-to-Three Year US Treasury/Agency, and the ICE Bank of America Merrill Lynch (BAML) One-to-Five Year US Treasury/Agency.

The short-maturity portfolio maintains a weighted average maturity of three to six months and provides sufficient liquidity to satisfy the City's short-term cash needs. The intermediate-maturity portfolio maintains a weighted average maturity of approximately one to three years and provides for the cash needs with maturities greater than six months. The long-maturity portfolio maintains a weighted average maturity of one to five years to satisfy the City's longer-term cash needs.

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. Approximately \$534.8 million of the total investment pool, or approximately 24.32 percent of the funds, will mature in the next six months, ensuring that sufficient funds are available to meet the City's liquidity needs.

Investment Position and Performance

The following table summarizes the City's investment pool position and performance for the quarter ending June 30, 2023:

Portfolio	As of June 30, 2023			As of June 30, 2023			
	Book Value	Market Value	Unrealized Gain/(Loss)	Quarter Portfolio Total Ret	Quarter Benchmark Total Re	Last 12 M Portfolio Total Re	Last 12 M Benchmark Total Re
Short-Maturity	\$257,055,539	\$256,998,173	(\$57,366)	1.27%	1.17%	3.30%	3.59%
Intermediate Maturity	\$1,490,120	\$1,450,840	(\$39,280)	0.08%	-0.56%	0.85%	0.14%
Long-Maturity	\$510,951,010	\$484,223,410	(\$26,727,600)	-0.38%	-0.86%	0.36%	-0.43%
Total Investments	\$2,258,127,232	\$2,192,062,186	(\$66,065,046)	0.13%	-0.42%	1.03%	0.42%
Total Cash	\$6,689,724	\$6,689,724		QUARTERLY INTEREST EARNINGS As of June 30, 2023			
Total Cash Investment	\$2,264,816,956	\$2,198,751,867		Total Interest Earnings	\$10,918,242		

- 1) *Book value is the initial value/outlay for an investment at the time of purchase (as much as five years ago) and still held in the portfolios, while market value represents the value at a point in time based on current market conditions.*
- 2) *Unrealized Gain/(Loss) is the difference between book and market value. It is inversely related to the change in interest rates. As interest rates rise or fall, the value of fixed-income assets moves in the opposite direction. Typically, investments are held to maturity, and therefore, gains/losses are rarely realized.*
- 3) *Total return is a performance measurement metric that reflects the portfolio's overall value for this three-month period, if liquidated, including income and realized and unrealized gains and losses.*
- 4) *Investment Performance - Portfolio Total Return numbers are calculated as a weighted average.*
- 5) *Last 12 months Portfolio Total Return is a performance measurement metric that reflects a rolling 12-month return, which includes income and both realized and unrealized gains/(losses)*
- 6) *Interest Earnings is the amount of interest earned from investments over a 3-month period, net of investment-related expenses.*

The quarter ending June 30, 2023, continued to experience rising market interest rates after a prolonged period of stable and historically low levels, which caused the investment value to remain negative on a mark-to-market basis. This resulted in an unrealized loss of approximately \$66.1 million, up from the prior quarter's unrealized loss of approximately \$53.5 million. Generally, there will be minimal actual realized loss since most securities are held to maturity. For the three months ended June 30, 2023, the quarterly total return was

0.13 percent, which was 55 basis points (0.55 percent) above the benchmark. Over the preceding 12 months, the investment portfolio generated an annualized total return of 1.03 percent, which was 61 basis points (0.61 percent) above the benchmark.

Another view of investment performance considers actual interest earnings, irrespective of changes in market value of the portfolio that are unlikely to be realized. As shown in the bottom-right portion of the table above, interest earnings totaled \$10.92 million for the quarter ending June 30, 2023. Using average cash balances for each of the three months of the quarter, the actual interest earned yielded an annualized interest earnings rate of 1.97 percent over the full quarter.

Investment portfolio holdings as of June 30, 2023, are included in Attachment B.

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on August 7, 2023 and by Revenue Management Officer Geraldine Alejo on August 14, 2023.

City Council action on this item is not time critical.

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no fiscal or local job impact associated with this recommendation.

Approve recommendation.

KEVIN RIPER
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER