



## Legislation Text

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**File #:** 13-0803, **Version:** 1

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Recommendation to receive and file the Investment Report for Quarter Ending June 30, 2013.  
(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, 2013, these funds had a book value of approximately \$1.367 billion.

Approximately \$700 million of the total investment pool, or approximately 51 percent of funds, will mature within six months, ensuring that sufficient funds are available to meet the City's liquidity needs.

### **Statutory 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 Manager, the Deputy City Auditor, Assistant City Attorney, Director of Financial Management, City Treasurer, City Controller, Budget and Performance Management Bureau staff, and designated representatives from the Harbor and Water departments, meets monthly, or as needed, to review investment policies, strategies and performance.

### **Investment Pool Rating**

Standard and Poor's Fund Credit Quality rating of the City's investment portfolio is AAAs/S1. The AAAs rating means the current investment holdings provide extremely strong protection against losses from credit defaults, while the S1 rating indicates a low sensitivity to market value changes from changes in interest rates or market conditions.

### **Overall Investment Pool 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 Select Auction Variable Rate Securities loan) as authorized by the City's Investment Policy and the California Government Code. The City's adopted 2013 Investment Policy divides the City's investment portfolio into a short-term, intermediate-term and a long-term portfolio whose benchmarks are the Three-Month Treasury Bill, One-Year Constant Maturity Treasury (CMT) and the Merrill Lynch One-to-Five Year Treasury/Agency Index, respectively. All 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 0.26 percent (annualized). Book yield represents the return received on the total investment portfolio on an

annualized basis.

On June 30, 2013, the City's investment pool market yield was 0.41 percent (annualized) with Weighted Average Maturity of 1.02 years. During the quarter, the short-term and intermediate-term benchmark indices were virtually unchanged from the previous quarter, while the long-term benchmark increased by 12 basis points. The following table summarizes the City's investment pool market yield and performance for the quarter ending June 30, 2013:

#### Investment Pool Performance - Quarter Ending June 30, 2013

| Investment Portfolio Funds | Amount of Funds  | Quarter End Values |              |                        |
|----------------------------|------------------|--------------------|--------------|------------------------|
|                            |                  | Benchmark Return*  | Market Yield | Over/(Under) Benchmark |
| Short-Term Pool            | \$ 533,845,835   | 0.03 percent       | 0.36 percent | 0.33 percent           |
| Intermediate-Term Pool     | \$ 412,191,774   | 0.15 percent       | 0.40 percent | 0.25 percent           |
| Long-Term Pool             | \$ 421,050,592   | 0.39 percent       | 0.48 percent | 0.09 percent           |
| Total Pool                 | \$ 1,367,088,200 | 0.18 percent       | 0.41 percent | 0.23 percent           |

\* Benchmark Return and Market Yield of Portfolio are at quarter end.

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

### Unrealized Gains And Losses

Unrealized gains or losses are the difference between market value and book value, and result from changing investment values during the period they are held in the portfolio. Unrealized gains or losses are only recognized when the investment is sold prior to the maturity date. Since the City generally holds securities to maturity, unrealized gains or losses are rarely realized. As of June 30, 2013, market value of the total investment portfolio was \$1.3671 billion and book value was \$1.3673 billion, a difference of approximately \$(0.233) million (unrealized loss) that represents below market interest earnings. The difference is not expected to have a significant impact in the current interest rate environment.

### Quarterly Investment Activity

Over \$136.1 million in new short-term investment transactions were executed. The weighted average book yield of the total transactions was 0.21 percent (annualized). There were no sales of securities in the short-term portfolio during the quarter.

Over \$86.6 million in new intermediate-term investment transactions were executed. The weighted average book yield of the total transactions was 0.47 percent (annualized). There were no sales of securities in the intermediate-term portfolio during the quarter.

Over \$29.1 million in new long-term investment transactions were approved and executed. The weighted average book yield of the total transactions was 1.04 percent (annualized). There were \$17.0 million in sales in the long-term portfolio during the quarter. The City's Investment Advisor, Chandler Asset Management, manages the long-term portfolio through activity pre-approved by the City Treasurer or a designated representative before executing trades.

As of June 30, 2013, the City's investment in the State Treasurer's Local Agency Investment Fund (LAIF) pool was approximately \$120.2 million.

### **Investment Strategies**

The City has investment strategies in place for the various portfolios. The short-term portfolio maintains sufficient liquidity within a rolling 12-month period to satisfy the City's cash needs. The intermediate-term portfolio maintains a weighted maturity of one year and provides cash needs for maturities greater than six months. Given the historically low interest rates, the Investment Advisory Committee recommended temporarily benchmarking the long-term portfolio to the One-Three Year Treasury/Agency Index. This new benchmark is reflected in the table on page two.

### **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 Acting City Attorney Charles Parkin on July 8, 2013 and by Budget Management Officer Victoria Bell on July 17, 2013.

This item is not time critical.

There is no fiscal impact or local job impact associated with this recommendation.

Approve recommendation.

JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST  
CITY MANAGER