



Legislation Text

File #: 07-1313, Version: 1

Recommendation to receive and file Investment Report for Quarter Ending September 30, 2007.
(Citywide)

The Department of Financial Management, City Treasurer's Office, invests City funds in compliance with the California Government Code, Section 53600 et seq., and the City's Investment Policy. As of September 30, 2007, these funds had a market value of approximately \$1.67 billion, with \$546.63 million, or 32 percent, maturing within six months, ensuring sufficient funds are available to meet the City's budgeted expenditure requirements during this time period.

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 a representative from the City Manager's office, Assistant City Auditor, Assistant City Attorney, Director of Financial Management, City Treasurer, City Controller, the Financial Officers of the Harbor, Water and Community Development Departments, meets quarterly or as needed to review investment policies, strategies and performance.

Rating Section

As of September 30, 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.

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 2007 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 of these indices are market indices that change daily.

Actual returns can vary depending on book yields and security sales or calls before the final maturity date.

At September 30, 2007, the City's investment pool market yield was 4.71 percent compared to 4.59 percent at June 30, 2007. The following table summarizes Investment Pool market yield performance for the quarter ending September 30, 2007:

Portfolio Funds	Amount of Funds	Quarter End Values		
		Benchmark Return	Weighted Average Maturity*	Month end Yield
Short-Term Investment Pool	\$624,857,073	3.80 percent	1.40 years	5.22 percent
Long-Term Investment Pool	\$1,043,887,138	4.12 percent	1.99 years	4.40 percent
Total Investment Pool	\$1,668,744,211	4.00 percent	1.77 years	4.71 percent

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

Portfolio

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 September 30, 2007:

SHORT-TERM PORTFOLIO

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark
JULY 2007		NO ACTIVITY		
AUGUST 2007	\$29,435,000	4.36 percent	5.80 percent	1.91 percent
SEPTEMBER 2007	\$25,000,000	3.99 percent	5.38 percent	1.39 percent
Total Invested Funds*	\$54,435,000	4.19 percent	5.61 percent	1.42 percent

* 91-Day T-Bill and other securities listed are weighted averages for the period. Excludes overnight and short-term investments under 30 days. **Book 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 September 30, 2007:

LONG-TERM PORTFOLIO

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark
JULY 2007	\$17,045,000	4.96 percent	5.23 percent	0.27 percent
AUGUST 2008	\$32,972,000	4.51 percent	5.03 percent	0.52 percent
SEPTEMBER 2007	\$37,729,000	4.22 percent	4.77 percent	0.55 percent
Total Invested Funds*	\$87,746,000	4.47 percent	4.96 percent	0.49 percent

* Merrill Lynch One-to- Three Year Treasury/Agency Index and other securities listed are weighted averages for the period.

**Yields are stated to maturity and assume the securities are not called or sold prior to the maturity date.

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 Subsidence, certain bond proceeds, 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 continue to satisfy the City's cash needs.

Long-Term Investment Strategy

The City will continue to weigh new instruments at the 18-month to 3D-month part of the yield curve in order to meet or exceed the benchmark yield and duration.

The City Treasurer's Office continues to monitor market conditions and market spreads daily in order to take advantage of opportunities to enhance earnings, while at the same time maintaining safety of principal and adequate liquidity.

Cash Management Goals

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

This matter was reviewed by Assistant City Attorney Heather A. Mahood, and Budget Management Officer Victoria Bell and the City's Investment Advisory Committee on November 2, 2007.

This item is not time critical.

There is no fiscal impact associated with this action.

Approve recommendation.

LORI ANN FARRELL
ACTING DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER