



## Legislation Text

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**File #:** 10-0182, **Version:** 1

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Recommendation to receive and file Investment Report for Quarter Ending December 31, 2009.  
(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 December 31, 2009, these funds had a market value of approximately \$1.7 billion, with approximately \$1.0 billion, or approximately 62 percent of funds, maturing within six months, ensuring that sufficient funds are available to meet the City's cash and 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/CFO, City Treasurer, City Controller, Budget and Performance Management Bureau Manager, and designated representatives from the Harbor, Water and Development Services departments, meets monthly, or as needed, to review investment policies, strategies and performance.

### Investment Pool Rating

As of September 30, 2009, Standard and Poor's reaffirmed the City's investment portfolio rating of AA+ and one of the lowest volatility ratings of S1. 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, along with a working group of other cities, counties and states having exposure to Lehman Brothers exceeding \$1.7 billion, have worked with representatives in Congress to encourage the Treasury Department to allocate funds under the Troubled Asset Relief Program (TARP) or the Emergency Economic Stabilization Act (HR 1424), which instructs the Secretary of the Treasury to take into consideration "the need to ensure stability for United States public instrumentalities." To date, the Treasury Department has not provided such relief, stating that only "financial institutions" are eligible to receive TARP relief, although non-financial entities, such as U.S. automakers have received TARP assistance. Additionally, the group is working with elected representatives to draft new language that will provide additional Federal stimulus or other Federal grant dollars to municipalities impacted by the Lehman bankruptcy. The City is still actively pursuing reimbursement

to restore lost funds through bankruptcy court proceedings and the fraud lawsuit against Lehman's officers and Ernst & Young, the accounting corporation that audited Lehman's annual financial statements.

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 2010 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 0.60 percent. Book yield represents the actual earnings received on the total investment portfolio.

On December 31, 2009, the City's investment pool market yield was 0.70 percent compared to 1.23 percent on September 30, 2009. During the quarter, the short-term and intermediate-term benchmarks decreased six and three basis points, respectively, while the long-term benchmark increased by twenty basis points. The following table summarizes the investment pool market yield performance for the quarter ending December 31, 2009:

Investment Portfolio Funds	Amount of Funds	Quarter End Values		
		Benchmark Return	Weighted Avg Maturity*	Yield**
Short-Term Pool	\$ 605,595,971	0.05 percent	0.26 years	0.42 percent
Intermediate-Term Pool	\$ 686,795,558	0.47 percent	0.72 years	0.62 percent
Long-Term Pool	\$ 404,107,340	1.13 percent	0.98 years	1.24 percent
Total Pool	\$ 1,696,498,873	0.48 percent	0.62 years	0.70 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 versus the average benchmark yield in the short-term portfolio by month for the quarter ending December 31, 2009:

SHORT-TERM PORTFOLIO				
Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark*
October 2009	\$ 35,000,000	0.07 percent	0.16 percent	0.09 percentage points
November 2009	\$ 140,000,000	0.04 percent	0.22 percent	0.18 percentage points
December 2009	\$ 175,925,000	0.04 percent	0.15 percent	0.11 percentage points
Total Invested Funds *	\$ 350,925,000	0.04 percent	0.18 percent	0.14 percentage points

\* 91-Day T-Bill and other returns listed are weighted averages for the period. \*\*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 new investments versus the average benchmark yield in the intermediate-term portfolio by month for the quarter ending December 31, 2009:

**INTERMEDIATE -TERM PORTFOLIO**

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark*
October 2009	\$ 67,000,000	0.37 percent	0.42 percent	0.05 percentage points
November 2009	\$ 95,684,000	0.31 percent	0.55 percent	0.24 percentage points
December 2009	\$ 136,280,000	0.37 percent	0.59 percent	0.22 percentage points
<b>Total Invested Funds *</b>	<b>\$ 320,964,000</b>	<b>0.35 percent</b>	<b>0.53 percent</b>	<b>0.18 percentage points</b>

\* 91-Day T-Bill and other returns listed are weighted averages for the period. \*\*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 new investments versus the average benchmark yield in the long-term portfolio by month for the quarter ending December 31, 2009. Our Investment Advisor, Chandler Asset Management, manages the long-term portfolio through activity pre-approved by the City Treasurer or a designated representative before execution.

**LONG-TERM PORTFOLIO**

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark*
October 2009	\$ 5,000,000	0.95 percent	0.10 percent	(0.85) percentage points
November 2009	\$ 53,200,000	0.84 percent	1.18 percent	0.34 percentage points
December 2009	\$ 70,915,000	0.90 percent	1.23 percent	0.33 percentage points
<b>Total Invested Funds *</b>	<b>\$ 129,115,000</b>	<b>0.88 percent</b>	<b>1.17 percent</b>	<b>0.29 percentage points</b>

\* Merrill Lynch One-to-Three Year Treasury/Agency Index and other returns 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.

As of December 31, 2009, the City had approximately \$22.0 million in the State Treasurer's Local Agency Investment Fund (LAIF) pool.

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 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.

### Intermediate-Term Strategy

The City has adopted an investment strategy for the intermediate-term portfolio that maintains a weighted maturity of one year and provides cash needs for maturities greater than six months.

### Long-Term Investment Strategy

Chandler Asset Management began reviewing and recommending a strategy for the long-term investment portfolio with the Investment Advisory Committee in October 2009. Given historically low interest rates, the Investment Advisory Committee has recommended a temporary strategy to benchmark the long-term portfolio to the one-three Year Treasury/Agency Index over the next six months. Please also note that given the stabilization in the financial services industry, Chandler Asset

Management has started to reinvest in AAA-rated, FDIC-insured corporate fixed income securities to further diversify the portfolio.

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 and Performance Management Bureau Manager David Wodynski and the City's Investment Advisory Committee on January 26, 2010.

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

NAME  
TITLE

APPROVED:

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PATRICK H. WEST  
CITY MANAGER