



Legislation Details (With Text)

File #: 09-0889 **Version:** 1 **Name:** FM-Investment Report for Qtr Ending 6/30/09
Type: Agenda Item **Status:** Approved
File created: 8/14/2009 **In control:** City Council
On agenda: 9/1/2009 **Final action:** 9/1/2009
Title: Recommendation to receive and file Investment Report for Quarter Ending June 30, 2009. (Citywide)
Sponsors: Financial Management
Indexes:
Code sections:
Attachments: 1. 090109-R-23sr&att.pdf

Date	Ver.	Action By	Action	Result
9/1/2009	1	City Council	approve recommendation	Pass

Recommendation to receive and file Investment Report for Quarter Ending June 30, 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 June 30, 2009, these funds had a market value of approximately \$1.8 billion, with approximately \$1.0 billion, or approximately 60 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 Community Development departments, meets monthly, or as needed, to review investment policies, strategies and performance.

Investment Pool Rating

As of March 31, 2009, the City's investment portfolio carries the highest credit rating of AA+ and the lowest volatility rating of S1 by the Standard & Poor's rating agency (see Attachment A). 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.

Financial Markets Performance

The City, along with a working group other cities, counties and states having exposure to Lehman exceeding \$1.7 billion, persuaded the House Financial Services Committee to conduct a hearing on May 5, 2009 on the Lehman Holdings, Inc., bankruptcy and the impact on local governments. There were two panels at the Committee meeting. The first panel was Congressmembers Eshoo and Speier, and the second panel included officials from California, Florida and Colorado, along with an economist from Beacon Economics to explain the dollar impact of the losses from Lehman on the various public entities. The panel also included Mr. Chris Street from the Orange County Treasurer's office. In summary, the panelists urged the Chairman of the Committee to pursue an official response from the Treasury Department regarding Section 103 of the Emergency Economic Stabilization Act, which instructs the Treasury to consider the need to ensure stability of public instrumentalities that have suffered losses in the current market turmoil. Additionally, the panel underscored the importance of passing H.R. 467 to require the Secretary to purchase defaulted bonds issued by Lehman and restore funds lost by local governments that invested in highly rated Lehman securities.

From the Congressional hearing held on May 5, 2009, the Treasury Secretary responded to Representatives Eshoo and Speier on June 17, 2009 that the Treasury would not purchase Lehman securities from public instrumentalities, however, the Chairman of the Financial Services Committee (Barney Frank), Representatives Eshoo and Speier are scheduling a meeting with the Treasury Secretary to discuss this issue. City staff is still actively working to restore lost funds through bankruptcy proceedings, the filing of the fraud lawsuit and support of H.R. 467.

Investment Performance - Overall Portfolio

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 2009 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 1.02 percent. Book yield represents the actual earnings received on the total Investment Portfolio.

At June 30, 2009, the City's investment pool market yield was 1.64 percent compared to 2.22 percent at March 31, 2009. During the quarter, the short-term benchmark decreased 2 basis points, while the long-term benchmark index increased 13 basis points, respectively. The following table summarizes the Investment Pool market yield performance for the quarter ending June 30, 2009:

Portfolio Funds	Amount of Funds	Quarter End Values		
		Benchmark Return	Weighted Avg Maturity*	Yield**
Short-Term Investment Pool	\$ 726,675,356	0.19 percent	0.38 years	1.11 percent
Long-Term Investment Pool	\$ 1,066,569,895	1.15 percent	0.71 years	2.00 percent
Total Investment Pool	\$ 1,793,569,895	0.78 percent	0.57 years	1.64 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, 2009. The purchase yield of new investments generally 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 2009	\$ 240,000,000	0.16 percent	0.17 percent	0.01 percentage points
May 2009	\$ 120,000,000	0.17 percent	0.39 percent	0.22 percentage points
June 2009	\$ 130,000,000	0.17 percent	0.31 percent	0.14 percentage points
Total Invested Funds *	\$ 490,000,000	0.17 percent	0.26 percent	0.09 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 vs. the average Benchmark Yield in the long-term portfolio by month for the quarter ending June 30, 2009. Due to unprecedented market volatility, the maturities of the long-term portfolio were systematically shortened (e.g. from average 18 - 24 month maturities to 6 to 12 month maturities) resulting in lower yields when compared to the benchmark, which has longer durations of 12-36 months on average.

LONG-TERM PORTFOLIO

Month	Amount of Funds Invested	Benchmark vs. Purchase Yield Analysis		
		Benchmark Return*	Purchase Yield**	Over/(Under) Benchmark*
April 2009	\$ 180,000,000	1.07 percent	0.45 percent	(0.62) percentage points
May 2009	\$ 305,000,000	1.01 percent	0.26 percent	(0.75) percentage points
June 2009	\$ 79,800,000	1.20 percent	0.31 percent	(0.89) percentage points
Total Invested Funds *	\$ 564,800,000	1.05 percent	0.33 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, 2009, the City had no investments in the State Treasurer's Local Agency Investment Fund (LAIF) pool. As previously reported, LAIF has been increasing its AB55 and General Fund Loans to up to 28 percent of the total value of its portfolio.

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

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 and the unprecedented volatility in the capital markets, shorter investment maturities are currently 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 and Performance Management Bureau Manager David Wodynski and the City's Investment Advisory Committee on July 28, 2009.

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