



Legislation Text

File #: 15-1166, **Version:** 1

Recommendation to receive and file the Investment Report for Quarter Ending September 30, 2015. (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 September 30, 2015, these funds had a book value of approximately \$1.551 billion.

Approximately \$671 million of the total investment pool, or approximately 43 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 Auditor, Deputy 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 quarterly, or as needed, to review investment policies, strategies and performance.

Investment Pool Rating

On March 13, 2015, Standard and Poor's (S&P) downgraded the City's investment pool rating to AAF from AAf, with one of the lowest volatility ratings of S1, due to the increased exposure to longer-termed U.S. Treasury and Agency securities. All portfolios that have substantial holdings of similar U.S. Government securities will be negatively impacted. S&P rates the City's investment pool based on a credit-scoring matrix that looks at the underlying rating of the securities in the portfolio and the weighted average life of the securities. The difference in rating classifications is AAf-rated portfolios provide "very strong protection" against losses, while AAA-rated portfolios provide an "extremely strong protection" against losses. This change in the rating will have no impact on the eligibility of the investment portfolio as an alternative investment of bond proceeds.

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, as authorized by the City's Investment Policy and the California

Government Code. The City's adopted 2015 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. Due to the market's historically low interest rates, the Investment Advisory Committee recommended temporarily benchmarking the long-term portfolio to the One-Three Year Treasury/Agency Index. All are market indices that change daily; therefore, actual returns can vary depending on book yields and security calls before the final maturity date.

As of September 30, 2015, the City's investment pool market yield was 0.50 percent (annualized) with a weighted average maturity of one year. During the quarter, all benchmark indices were, on average, higher than the previous quarter. The following table summarizes the City's investment pool market yield and performance for the quarter ending September 30, 2015:

Investment Pool Performance - Quarter Ending September 30, 2015

Investment Portfolio Funds	Amount of Funds	Quarter End Values		
		Benchmark Return	Market Yield*	Over/(Under) Benchmark
Short-Term Pool	\$ 592,993,816	0.06 percent	0.35 percent	0.29 percent
Intermediate-Term Pool	\$ 528,969,602	0.37 percent	0.55 percent	0.18 percent
Long-Term Pool	\$ 428,807,309	0.32 percent	0.65 percent	0.33 percent
Total Pool	\$ 1,550,770,727	0.24 percent	0.50 percent	0.26 percent

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

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. 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(s) are sold prior to the maturity date. Since the City generally holds securities to maturity, unrealized gains or losses are rarely realized. As of September 30, 2015, market and book value of the total investment portfolio was approximately \$1.551 billion, a difference of approximately \$2.861 million (unrealized gain) that represents the increase in market value of the portfolio over book value

on that date.

Quarterly Investment Activity

Over \$83 million in new short-term investment transactions (excluding LAIF transactions) were executed. The weighted average book yield of the total transactions was approximately 0.68 percent (annualized). There were no sales of securities in the short-term portfolio during the quarter.

Over \$212 million in new intermediate-term investment transactions were executed. The weighted average book yield of the total transactions was approximately 0.55 percent (annualized). There were no sales of securities in the intermediate-term portfolio during the quarter.

Over \$43 million in new long-term investment transactions were approved and executed. The weighted average book yield of the total transactions was approximately 1.31 percent (annualized). There were no sales in the long-term portfolio during the quarter.

As of September 30, 2015, the City's investment in the State Treasurer's Local Agency Investment Fund (LAIF) pool was approximately \$120.9 million.

Investment Strategies

The City has investment strategies for the various portfolios. The short-term 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-term portfolio maintains a weighted average maturity of approximately one year and provides for the cash needs with maturities greater than six months. The long-term portfolio maintains a weighted average maturity of one to three years to satisfy the City's longer-term cash needs.

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 Deputy City Attorney Linda T. Vu on October 26, 2015 and by Budget Management Officer Victoria Bell on October 28, 2015.

This item is not time critical.

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

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER