



## Agenda Report

December 14, 2015

**TO:** Honorable Mayor and City Council  
**THROUGH:** Finance Committee  
**FROM:** Department of Finance  
**SUBJECT:** Quarterly Investment Report  
Quarter Ending September 30, 2015

### **RECOMMENDATION:**

This report is for information only.

### **BACKGROUND:**

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer (CFO) may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 2) a statement of compliance of the portfolio with the statement of investment policy; and 3) a statement of the local agency's ability to meet its pool's expenditure requirements for the next six months. By making these reports optional, this bill does not impose a state-mandated local program but encourages local agencies to continue to report. The bill also states that the Treasurer or CFO may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall include the following:

- 1) The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury;
- 2) The weighted average maturity of the investments within the treasury;
- 3) Any funds, investments, or programs, including loans, that are under the management of contracted parties;

- 4) The market value as of the date of the report, and the source of this valuation for any security within the treasury;
- 5) A description of the compliance with the Statement of Investment Policy.

### **Quarterly Economic Review**

The third quarter Gross Domestic Product (GDP) grew at 1.5 percent rate, less than half the pace of the prior three month's 3.9 percent rate. This was largely expected and in line with economists' consensus forecast as companies took advantage of gains in consumer and business spending to reduce bloated inventories. The median forecast by 79 economists for the year 2015 GDP is now at 2.5 percent, in line with its trend growth rate. Consumer spending in the third quarter was solid. Consumption on durable goods was up 6.7 percent and consumption on services increased 2.6 percent compared to the previous quarter. The year-over-year Consumer Price Index (CPI) measured 0 percent in September while the Core CPI which excludes food and energy components was at 1.9 percent, much closer to the 2 percent Fed target rate. Housing statistics released during the quarter were positive. New and existing homes were being bought at a pace exceeding last year and housing starts and building permits also showed gains according to the Census bureau. During the third quarter, the U.S. economy added on average 171,000 jobs per month and unemployment dropped to 5.1 percent.

The big story in the third quarter was China. The Chinese stock market experienced extreme volatility as its exports shrunk 8.3 percent in a year and its retail sales hit a 15 year low. Economists questioned whether China's official GDP was overstated. The Chinese stock market dropped 25 percent and the government implemented strict controls over its equity market and surprised investors in August by devaluing its currency, the Yuan. This sent shockwaves to world equity markets as almost all stock indices dropped. In the United States, the Dow Jones Industrial Average dropped 7.57 percent, the S&P 500 index was down 6.93 percent and NASDAQ declined 7.35 percent as investors worried about a China-led global slowdown and a possible rise in U.S. interest rates. Yields declined in the bond market as treasuries enjoyed a strong demand from safe-haven investors and as Fed's policymakers opted not to increase the Fed Funds rate at the Federal Open Market Committee meeting on September 17, 2015. By the end of the quarter, the three-year treasury yield declined 0.10 percent, the five-year rate dropped 0.29 percent, and the ten-year yield was down 0.32 percent.

The recent October jobs statistics reported 271,000 gain in non-farm payroll numbers. This was the biggest gain this year and caused unemployment to drop to 5 percent. This left little doubt among investors that the Fed will increase rates in December. Futures markets are now projecting a rate increase by the Federal Reserve in December as a near certainty.

The graph below represents interest rates on September 30, 2015 compared to September 30, 2014. Short term rates, 3 months to two year maturities, have increased and rates with maturities of three years and over have decreased compared to a year ago:



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### **Total Funds Under Management**

The following table represents the total City funds under management based on their market values as of September 30, 2015.

	09/30/2015	06/30/2015	\$ Change
Pooled Investment Portfolio	381,060,809	382,657,204	-1,596,395
Capital Endowment	1,899,093	1,897,229	1,864
Stranded Investment Reserve Portfolio	68,740,146	68,347,090	393,056
Special Funds	27,149,197	42,384,145	-15,234,948
Investments Held with Fiscal Agents	60,131,021	59,601,927	529,094
<b>Total Funds Under Management</b>	<b>538,980,266</b>	<b>554,887,595</b>	<b>-15,907,329</b>

The Pooled Investment Portfolio value decreased by a net \$1.596 million mainly due to the payment of \$12.3 million in anticipated debt service payments; a \$3.57 million draw for the GT5 project offset by \$11 million of tax receipts; a \$4.46 million increase in deposits, and a \$0.402 million adjustment for investment gains in the portfolio during the quarter.

The Capital Endowment Fund increased by \$1,864 million representing the net investment earnings for the period.

The Stranded Investment Reserve portfolio increased by \$393,056 representing the net investment earnings for the period adjusted by the unrealized gains and losses.

Special Funds decreased by a net \$15.23 million as a result of \$15.319 million withdrawals made from the 2013A Electric Revenue Bond proceeds to cover budgeted and anticipated capital expenditures related to the GT5 repowering project incurred during the period, adjusted by \$84,684 in investment earnings.

Investments held with fiscal agents increased by \$0.529 million representing investment earnings for the period.

The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. Because the 2015 fiscal year accounting records have not yet closed, staff estimates that the General Fund's cash balance will be approximately \$40 million at the end of September representing 10.49 percent of the September Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues receipts and payment of expenditures. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds, and funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance with the City Charter, City ordinances, and the bond indentures. The City targets a duration of an average of two years in managing the pooled portfolio based on the portfolio's risk and return evaluation and industry best practices as it pertains to public funds management. As of September 30, 2015 the portfolio's duration was 2.03 years.

Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, as well as investment and moneys within the treasury with market values as of September 30, 2015. On a monthly basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. The market values are obtained from Interactive Data Corporation (IDC) and from Bloomberg Financial System. IDC is an independent third party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year 2016 Investment Policy, which was adopted by the City Council on July 27, 2015, and Section 53600 of the State Government Code. The City Treasurer currently maintains over \$45 million short-term liquid investments (1 to 90 day maturities) which represent approximately 1/12<sup>th</sup> of the City's total aggregate annual operating budget. This balance, along with anticipated cash flows into the City's account, represents a strong liquidity position to meet budgeted expenditures for the next six months.

The yield to maturity on the City's Pooled Portfolio began to gradually increase after it stabilized at around 1 percent due to declining interest rates in the last six years as short-term rates remained between 0.00 percent and 0.25 percent. The fiscal year to date effective yield which represents the portfolio investment earnings rate adjusted by the realized trading gains and losses was 1.16 percent for the Pooled Portfolio as of September 2015, compared to the State Treasurer's Local Agency Investment Fund (LAIF) of 0.32 percent, the Los Angeles County Treasurer's Pooled portfolio yield of 0.78 percent, and the average yield on the two-year U.S Treasury of 0.68 percent. The fiscal year to date effective yield for the Power Reserve portfolio was 1.53 percent.

**COUNCIL POLICY CONSIDERATION:**

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

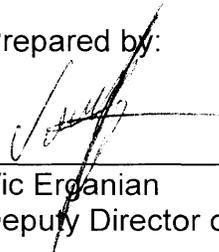
**FISCAL IMPACT:**

This report is for information only. There is no fiscal impact as a result of this action nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,

  
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MATTHEW E. HAWKESWORTH  
Director of Finance  
Department of Finance

Prepared by:

  
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Vic Erganian  
Deputy Director of Finance/City Treasurer

Approved by:

  
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MICHAEL J. BECK  
City Manager

Attachments: (1)

Attachment A – Quarterly Investment Report (Quarter Ending September 30, 2015)