

Agenda Report

December 14, 2020

TO: Honorable Mayor and City Council
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
SEPTEMBER 30, 2020**

RECOMMENDATION:

This report is for information only.

BACKGROUND:

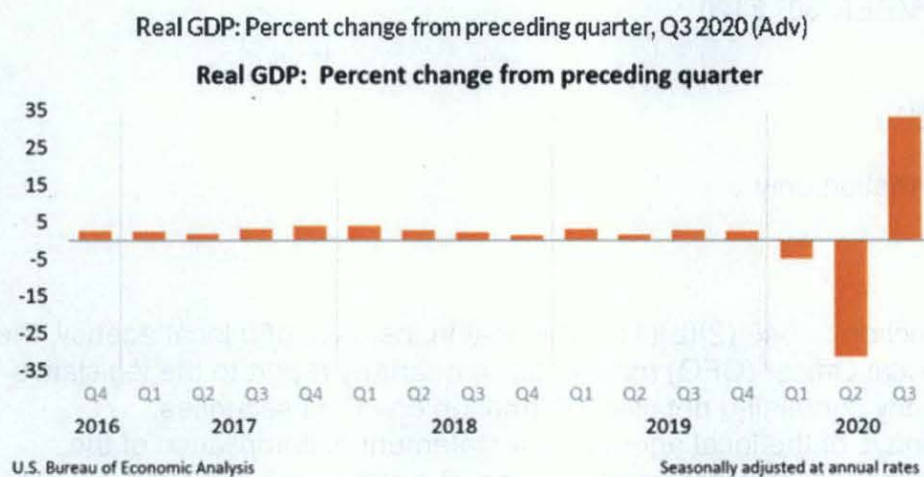
Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer (CFO) may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 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*.

Economic Review

The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce reported on October 29, 2020 a 33.1 percent increase in Gross Domestic Product (GDP) for its advance estimate for the third quarter of 2020. It had previously reported a 31.4 percent decrease in the second quarter, which was the economic shutdown's after effect. The BEA attributed the quarter to quarter increase in GDP to the growth of Personal Consumption Expenditures (PCE) in the areas of *service* and *goods*. In respect to service, it was led by increased health care, food services, and accommodations. Within goods, growth was attributed to increases in motor vehicles and parts, in addition to clothing and footwear.

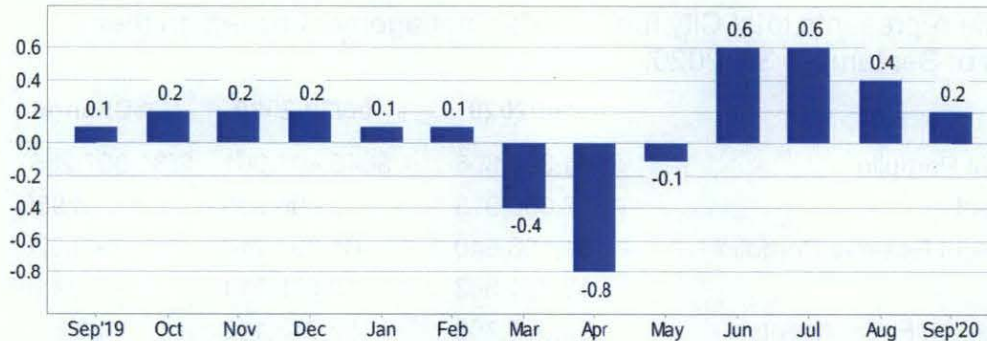


The GDP growth transcended to the employment market with a continued decline in the unemployment rate. The U.S. Bureau of Labor Statics (BLS) reported in September 2020 an increase in the total nonfarm payroll employment by 661,000 and the unemployment rate declined to 7.9 percent compared to 11.1 percent reported in the previous quarter. The preliminary unemployment rate for the Los Angeles-Long Beach-Anaheim metropolitan area for September was 13.6 versus 18.1 percent reported in June 2020. The Department of Labor (DOL) reported an 837,000 initial unemployment claims for the week ending September 26. The 4-week moving average of insured unemployment was 12,701,250, representing a 381,250 decrease from the previous week's report.

In September, the Consumer Price Index (CPI) reported a positive 0.2 percent increase, which is in line with pre-pandemic numbers previously reported. During the economic shutdown, the economy witnessed a 140 basis point swing from a reported 0.8 percent decline in April, to a positive 0.60 percent increase recorded in July of this year. The Producer Price Index (PPI) also registered a positive 0.4 percent increase this September. The BLS attributed the seventy-five percent of the increase to a rise in prices for final demand for *service* and twenty-five percent to demand for *goods*. It also

reported in September 2020 retail and food services sales of \$549.3 billion, representing a 5.4 percent increase from a year ago for the same period.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Sep. 2019 - Sep. 2020
Percent change



The Federal Reserve Bank continues to do anything and everything in its power to bring stability to the financial markets. However, notwithstanding the rise of the stock market, the decline in unemployment, and the increase of GDP, the Fed Chair Jerome Powell has urged lawmakers that more is needed to be done by them. In a recent speech at the National Association for Business Economics, he stated, "the expansion is still far from complete. At this early stage, I would argue that the risks of policy intervention are still asymmetric. Too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses." Despite his cautionary and repeated warnings, the second round of stimulus appears to be at a stalemate, and negotiations are still ongoing slowly amongst both major political parties.

Treasury yields continue to be low and are projected to remain at these levels for the near future. The one-year is currently yielding 0.124 percent, while the five-year 0.285 percent, and the thirty-year 1.460 percent for the quarter ending September 30.

Since the stock market lows this year, most major indexes have recovered by the end of the quarter. The S&P 500 has risen to 4.09 percent, and the Dow Jones Industrial Average has almost recouped its losses to close down 2.65 percent. Conversely, the technology-driven NASDAQ has increased to 24.46 percent for the year; last quarter, it reported a gain of 13.17 percent. This index is weighted by four technology companies that have benefited from recent market changes; Apple, Microsoft, Amazon, and Alphabet. Investment U, journalist Nicholas Vardy recently stated that the collective market cap of these four companies is larger than the Japanese stock market, which is the third-largest economy in the world.

The National Association of Realtors reported that the Pending Home Sales Index (PHSI) grew to 8.8 percent at the end of September. The year over year contract signing rose 24.2 percent. For the same period, Realtor.com reported that there were approximately 400,000 fewer homes for sale compared to a year ago. In 44 of the 50 largest markets, the *pace of sales*, which measures the time on the market, is now

down 29 percent; these cities include Los Angeles, Boston, Virginia Beach, Baltimore, and Las Vegas.

Total Funds Under Management

The following table represents total City funds under management based on their market values as of September 30, 2020.

	09/30/2020	06/30/2020	\$Change
Pooled Investment Portfolio	\$564,399,806	\$645,407,061	\$(81,007,255)
Capital Endowment	2,066,915	2,060,956	5,959
Stranded Investment Reserve Portfolio	61,186,640	61,037,714	148,926
Special Funds	18,861,303	18,878,311	(17,008)
Investments Held with Fiscal Agents	52,665,758	52,243,143	422,615
PARS Section 115 Trust	14,375,950	13,922,346	453,604
Total Funds Under Management	\$713,556,372	\$793,549,531	(\$79,993,159)

The Pooled Investment Portfolio value decreased by a net (\$79,993,159) due to the following transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$1,198,765
Deposits and Credit Card Receipts	109,178,144
Property Tax Revenues	3,318,770
Sales Tax and Other State Apportionments	16,348,596
HUD Receipts Net of Payments and Loans	5,392,112
Payroll and Payroll-related Expenses	(73,378,546)
PERS Prepaid unfunded Accrual Liability	(40,241,847)
Vendor Payments and Accounts Payable Checks	(55,352,241)
Debt Service Payments Net of Reimbursements and Subsidies	(13,459,444)
Water and Power Payments Net of Receipts	(26,240,332)
Net Transfer from Other Funds	(7,952,355)
Total	\$(81,007,255)

The Capital Endowment Fund increased by \$5,959 representing the investment earnings of \$9,926 adjusted by the market value change of (\$3,967).

The Stranded Investment Reserve portfolio increased by \$148,926 representing \$255,106.22 investment earnings for the period and (\$106,180.22) in market value change.

Special Funds decreased by \$17,008 representing \$6,340 in investment earnings for the period, (\$1,202) in market value change and \$24,550 Principal payment received for Annandale Assessment District.

Investments held with fiscal agents increased by a total \$422,615 due to \$541,632 Debt Service payment received for the 2016A Rose Bowl Bonds paid to bond holders on 10/1/2020 and a decrease of \$119,016.42 in Investment Earnings.

The PARS Section 115 Trust account increased by \$453,604. The change was comprised of \$471,296 of market value increase of investments adjusted by \$17,692 of investment expense.

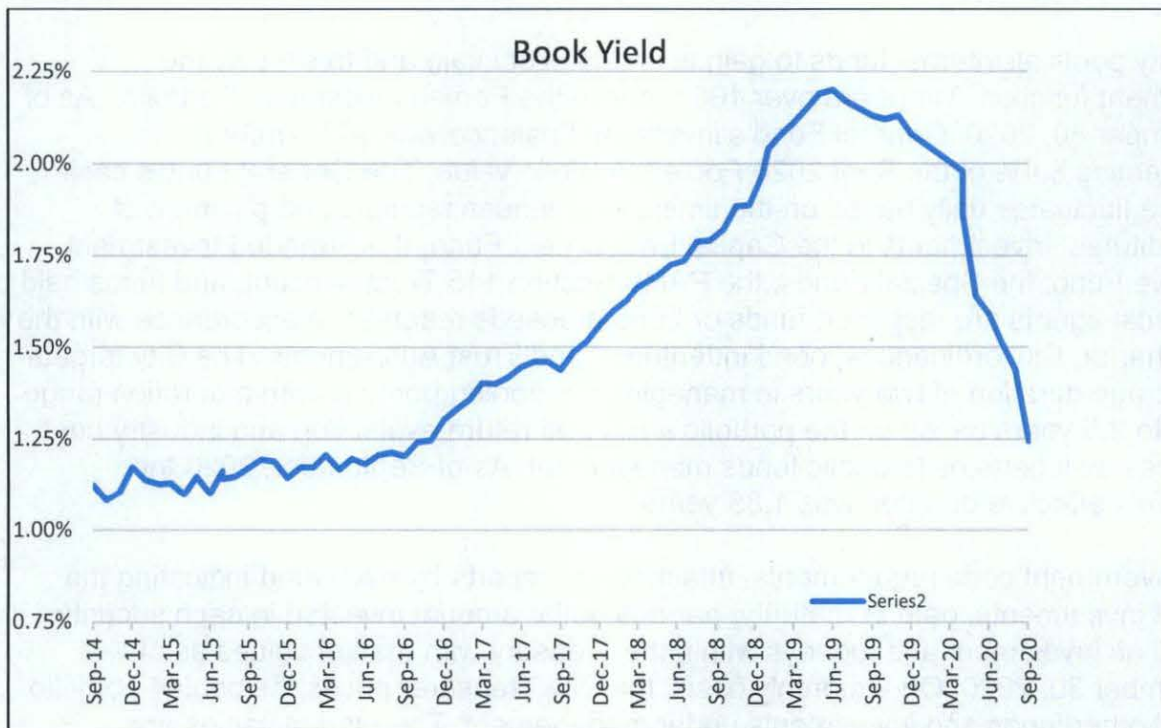
The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of September 30, 2020, General Fund's investment balance was \$47.5 million representing 8.4% of the Sept 2020 Pooled Portfolio value. 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, the PARS Section 115 Trust account, and funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance with the City Charter, City ordinances, bond indentures, and Trust Agreements. The City targets an average duration of two years in managing the pooled portfolio with a duration range of 1.5 to 2.5 years based on the portfolio's risk and return evaluation and industry best practices as it pertains to public funds management. As of September, 2020 the portfolio's effective duration was 1.85 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, 2020. 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 2021 Investment Policy which was adopted by the City Council on June 15, 2020 and Section 53600 of the State Government Code with the exception of Boeing Corporation. On January 30, 2020, Moody's lowered Boeing Corporation's bond rating to Baa1 from A2. Staff's recommendation is to hold the investment until it matures on October 30, 2020. The City Treasurer currently maintains over \$60 million short-term, liquid investments (1 to 90 day maturities), which represents approximately 1/12th 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 Pooled Portfolio's book yield had increased several quarters until March 2019 when rates reversed their course and began to gradually decline all across the yield curve. The yield on the pooled portfolio plateaued beginning the Fiscal Year 2020 and began decreasing due to the significant drop of overall interest rates in the financial markets, especially after the Fed cut the Fed Funds rate to 0%-0.25% range. If current rates remain the same, and/or continue to decrease, the yield on the City's pooled portfolio will similarly decline, reflecting the rapid drop in interest rates.

The graph below represents the historic book yield of the Pooled Portfolio over the last five-years, through September 2020:



COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:


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

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Department of Finance

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



STEVE MERMELL
City Manager

Attachment: (1)

1) Attachment A – Quarterly Investment Report - Quarter Ending September 30, 2020