

# SESSION 5

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## Investment Reporting



Ben Finkelstein

*Managing Director  
Robert W. Baird & Co.*

# Assumptions

While this is an introductory session on Investment Reporting, I assume most of the local agencies represented today have an existing process for investment reporting.

This session will be less about creating Investment Reports and more about helping students understand their purpose, evaluate their effectiveness, and where appropriate modify legacy investment reports to assure compliance with the Prudent Investor Standard.

# Public Fund Investing Reference Library

Investment Portfolio Reporting Practices: An Informational Guide  
[https://www.treasurer.ca.gov/cdiac/invest/invest\\_guide04-5.pdf](https://www.treasurer.ca.gov/cdiac/invest/invest_guide04-5.pdf)

Local Agency Investment Guidelines - California State Treasurer  
[www.treasurer.ca.gov/cdiac/laig/guideline.pdf](http://www.treasurer.ca.gov/cdiac/laig/guideline.pdf)

California Public Fund Investment Primer  
[www.treasurer.ca.gov/cdiac/invest/primer.pdf](http://www.treasurer.ca.gov/cdiac/invest/primer.pdf)

# Essential California State Codes

FindLaw

<https://codes.findlaw.com/ca/government-code/gov-sect-53600-3>

California Code, Government Code - GOV § 53600.3

California Code, Government Code - GOV § 27000.3

California Code, Government Code - GOV § 53607

California Code, Government Code - GOV § 53646

# Investment Reporting - Key Messages

## **Government Code - GOV § 53600.3**

all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard.

## **Chapter III – CDIAC 2024 Investment Guidelines**

These reports generally are intended to provide the legislative body the ability to meet its fiduciary obligations as a trustee and to increase the disclosure of the agency's investment activities to those outside the agency.

# Standard Of Care – Prudence Prudent Investor

## Prudent (Man) Person

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as probable income to be derived.

## Prudent Investor

A US law that sets the standard of fiduciary duty for those entrusted with the responsibility of managing other's money, such as trustees and estate administrators. It requires that a trustee consider entire portfolio when determining prudence of investment, taking into account the income that may be generated by the investment as well as the probable safety of the invested capital.

***Prudent investment entails considerably more than simply selecting the appropriate securities***



# Uniform Prudent Investor Act Updates

*The UPIA made four main changes to the previous Prudent Man Rule standard*

1. Entire portfolio is considered when determining prudence of investment. Fiduciary not held liable for losses as long as investments consistent with policy objectives

2. **Diversification is explicitly required as a duty for prudent fiduciary investing.**

3. No category or type of investment is deemed inherently imprudent. Instead, **suitability** to portfolio needs is considered.

However, speculation and outright risk taking is not sanctioned by the rule and remain subject to possible liability.

4. Fiduciary permitted to delegate investment mgmt. to third parties.

# Uniform Prudent Investor – Key Takeaways

1. UPIA's most important change was that the standard of prudence would be applied to any investment in context of total portfolio rather than individual investments.
2. A **prudent investment** will not always turn out to be a highly profitable investment; in addition, no one can predict with certainty what will happen with any investment decision.
3. More recently, the prudent man rule has been renamed the **prudent person rule**. This set of guidelines can also be applied where it is referred to as the **prudent investor rule**.



# Learning Outcomes

- Participants will learn the importance of preparing investment reports that address both Legal (Fiduciary Obligations) investments as well as the overall portfolio's Suitability (Stewardship).
- Participants will be provided with a few politically sensitive questions frequently asked about portfolio.
- Participants will be coached on how to construct investment reports that answer those politically sensitive questions before asked.



# *Know Thy Self*

Public Fund Investing 101



# *Know Thy Audience*

Public Fund Investing 101



# *Know Thy Purpose*

Public Fund Investing 102

# California Code, Government Code - GOV § 53600.5

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to **safeguard the principal** of the funds under its control. The secondary objective shall be to **meet the liquidity needs** of the depositor. The third objective shall be **to achieve a return** on the funds under its control.

# Three Challenges Investment Reporting Faces

1. Prepare Investment Reports to show investment portfolio is both legal and suitable.
2. Investment Report explicitly state policy objectives were met in priority.
3. Investment Reports are crafted to answer critical portfolio performance questions before they can be asked.



# Investment Reporting - CA Code Legal

- Demonstrate Fiduciary Obligations Meet
- States portfolio complies with Investment Policy
- States local agency has sufficient liquidity to meet cash flow requirements for six months
- Transparency – increased disclosure of investment holdings and activities

# Investment Reporting – UPIA Standard Suitability

1. UPIA: Prudent investment entails considerably more than simply selecting the appropriate securities
2. UPIA: No category or type of investment is deemed inherently imprudent. Instead, **suitability** to portfolio needs are considered.
3. Suitability differentiates a fiduciary who is a bond buyer instead of a steward looking at investments in context of overall portfolio
4. UPIA: A prudent investment will not always turn out to be a highly profitable investment
5. Fiduciary relies heavily on competitive bidding to comply with policy 1994 Orange County – “Right Price Wrong Bond”.

# Investment Policy Objectives

## Rank The Risk

Safety	_____
Liquidity	_____
Income	_____
Total	100%

# Conclusion – Call For UPIA Ex Summary

Investment Reports are supposed to capture the various actions the trustee or fiduciary takes regarding the overall investment portfolio. Ultimately, investment reports disclose not only the legal test of "is a portfolio in compliance with State Code and their Investment Policy" but also, must report how the trustee or fiduciary's decision-making applied the Prudent Investor Standard in constructing and managing the portfolio.

The Prudent Investor Standard speaks to the Fiduciary Obligation and Financial Stewardship

# Contact Information

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# Appendix

Fundamentals of Public Fund Investing  
February 28-29, 2024

# California Code, Government Code - GOV § 53600.3

*Current as of January 01, 2023, | Updated by FindLaw Staff*

Except as provided in [subdivision \(a\) of Section 27000.3](#), all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

## California Code, Government Code - GOV § 27000.3

Current as of January 01, 2023, | Updated by [FindLaw Staff](#)

(a) With regard to county funds deposited in the county treasury, the board of supervisors is the agent of the county who serves as a fiduciary and is subject to the prudent investor standard, unless a delegation has occurred pursuant to [Section 53607](#) in which case the county treasurer shall be the agent of the county with respect to these funds, serve as a fiduciary, and be subject to the prudent investor standard and the board of supervisors shall not be the agent, serve as a fiduciary, or be subject to the prudent investor standard.

## California Code, Government Code - GOV § 53607

Current as of January 01, 2023, | Updated by [FindLaw Staff](#)

The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

## Investment Report Required Contents Pursuant to California Government Code Section 53646

1. Type of investment
2. Issuer name
3. Date of maturity
4. Par amount
5. Dollar amount invested in all securities, investments, and moneys held by the local agency (CDIAC defines this as cost or book value of investments)
6. Description of any of the local agency's funds, investments, or programs under the management of contracted parties
7. Current market value of all funds held by the local agency and under the management of any outside party that is not also a local agency or the California Local Agency Investment Fund and the source of that value
8. Statement of compliance with local agency investment policy
9. Statement of the local agency's ability to meet its cash flow needs for the next six months

# California Code, Government Code - GOV § 53646

Current as of January 01, 2023, | Updated by [FindLaw Staff](#)

(a)(1) In the case of county government, the treasurer may annually render to the board of supervisors and any oversight committee a statement of investment policy, which the board shall review and approve at a public meeting. Any change in the policy shall also be reviewed and approved by the board at a public meeting.

(2) In the case of any other local agency, the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

(b)(1) The treasurer or chief fiscal officer may render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency. The quarterly report shall be so submitted within 45 days following the end of the quarter covered by the report. Except as provided in subdivisions (e) and (f), this report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the local agency, and shall additionally include a description of any of the local agency's funds, investments, or programs, that are under the management of contracted parties, including lending programs. With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report and shall include the source of this same valuation.



# California Code, Government Code - GOV § 53646

Current as of January 01, 2023, | Updated by [FindLaw Staff](#)

(2) The quarterly report shall state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance.

(3) The quarterly report shall include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months or provide an explanation as to why sufficient money shall, or may, not be available.

(4) In the quarterly report, a subsidiary ledger of investments may be used in accordance with accepted accounting practices.

(c) Pursuant to subdivision (b), the treasurer or chief fiscal officer shall report whatever additional information or data may be required by the legislative body of the local agency.

(d) The legislative body of a local agency may elect to require the report specified in subdivision (b) to be made on a monthly basis instead of quarterly.

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# California Code, Government Code - GOV § 53646

Current as of January 01, 2023, | Updated by [FindLaw Staff](#)

(e) For local agency investments that have been placed in the Local Agency Investment Fund, created [Section 16429.1](#) in National Credit Union Share Insurance Fund-insured accounts in a credit union, in accounts insured or guaranteed pursuant [Section 14858 of the Financial Code](#) or in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in a county investment pool, or any combination of these, the treasurer or chief fiscal officer may supply to the the governing body, chief executive officer, and the auditor of the local agency the most recent statement or statements received by the local agency from these institutions in lieu of the information required by paragraph (1) of subdivision (b) regarding investments in these institutions.

(f)The treasurer or chief fiscal officer shall not be required to render a quarterly report, as required by subdivision (b), to a legislative body or any oversight committee of a school district or county office of education for securities, investments, or moneys held by the school district or county office of education in individual accounts that are less than twenty-five thousand dollars (\$25,000).

(g)In recognition of the state and local interests served by the actions made optional in subdivisions (a) and (b), the Legislature encourages the local agency officials to continue taking the actions formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.



**Monthly Investment Report  
Portfolio Management  
Portfolio Summary  
June 30, 2023**

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C
C.A.M.P.	62,441,860.20	62,441,860.20	62,441,860.20	6.16	1	1	5.240
Local Bank Accounts	7,361,929.42	7,361,929.42	7,361,929.42	0.73	1	1	3.108
Local Agency Investment Funds	45,895,316.41	45,895,316.41	45,895,316.41	4.53	1	1	3.167
Money Market	76,454,503.88	76,454,503.88	76,454,503.88	7.55	1	1	4.795
Corporate Notes	224,225,000.00	205,833,699.50	226,647,378.00	22.37	1,747	849	1.369
Federal Agency Coupon Securities	498,521,333.33	437,914,286.93	497,579,979.17	49.12	2,426	716	1.825
Federal Agency Disc. -Amortizing	77,000,000.00	76,468,760.00	76,435,790.76	7.54	124	53	5.069
Municipal Bonds	19,930,000.00	19,079,268.10	20,271,405.36	2.00	1,300	505	1.142
<b>Investments</b>	<b>1,011,829,943.24</b>	<b>931,449,624.44</b>	<b>1,013,088,163.20</b>	<b>100.00%</b>	<b>1,618</b>	<b>556</b>	<b>2.360</b>

Total Earnings	June 30 Month Ending	Fiscal Year To Date	Fiscal Year Ending
Current Year	1,933,247.21	16,449,594.31	16,449,594.31
<b>Average Daily Balance</b>	<b>1,017,950,973.47</b>	<b>949,234,915.78</b>	
<b>Effective Rate of Return</b>	<b>2.31%</b>	<b>1.73%</b>	

NOTE: THE POOLED FUND INCLUDES CASH FROM SEPARATE INVESTMENTS, e.g. CITIZENS BENEFIT FUND, WHICH IS TRACKED AS CASH AND ASSIGNED BY FUND AS A PORTION OF THE POOLED EQUITY. THE SEPARATE INVESTMENT ACCOUNT STATEMENTS DO NOT SHOW THIS CASH PORTION IN THEIR LIST OF INVESTMENTS.

THIS SCHEDULE OF INVESTMENTS IS IN COMPLIANCE WITH THE INVESTMENT POLICY AS ESTABLISHED AND SUFFICIENT FUNDS WILL BE AVAILABLE TO MEET CASH FLOW REQUIREMENTS FOR THE NEXT SIX MONTHS. MARKET VALUES PROVIDED BY US BANK AND LAIF.

NOTE: THE EFFECTIVE RATE OF RETURN INCLUDES CAPITAL GAINS FROM INVESTMENT SALES. THESE GAINS ARTIFICIALLY INFLATE THE EXPECTED YIELD.

  
Dennis Kauffman, Assistant City Manager/CFO

08/09/2023  
DATE

Dennis Kauffman  
Digitally signed by Dennis Kauffman  
Date: 2023.08.08 17:34:17 -07'00'

Dennis Kauffman, Assistant City Manager/CFO

**Monthly Investment Report  
Portfolio Management  
Interest Earnings Summary  
June 30, 2023**

	June 30Month Ending	Fiscal Year To Date
<b>CD/Coupon/Discount Investments:</b>		
Interest Collected	1,133,121.88	10,812,380.33
Plus Accrued Interest at End of Period	2,925,781.85	2,753,245.13
Less Accrued Interest at Beginning of Period	( 3,104,843.95)	( 2,531,906.09)
Less Accrued Interest at Purchase During Period	( 0.00)	( 0.00)
Interest Earned during Period	954,059.78	11,033,719.37
Adjusted by Premiums and Discounts	200,629.86	1,383,484.81
Adjusted by Capital Gains or Losses	0.00	-84,578.82
Earnings during Periods	1,154,689.64	12,332,625.36
<b>Pass Through Securities:</b>		
Interest Collected	0.00	0.00
Plus Accrued Interest at End of Period	0.00	0.00
Less Accrued Interest at Beginning of Period	( 0.00)	( 0.00)
Less Accrued Interest at Purchase During Period	( 0.00)	( 0.00)
Interest Earned during Period	0.00	0.00
Adjusted by Premiums and Discounts	0.00	0.00
Adjusted by Capital Gains or Losses	0.00	0.00
Earnings during Periods	0.00	0.00
<b>Cash/Checking Accounts:</b>		
Interest Collected	0.00	0.00
Plus Accrued Interest at End of Period	8,707,680.04	8,707,680.04
Less Accrued Interest at Beginning of Period	( 7,929,122.47)	( 4,590,711.09)
Interest Earned during Period	778,557.57	4,116,968.95
<b>Total Interest Earned during Period</b>	<b>1,732,617.35</b>	<b>15,150,688.32</b>
<b>Total Adjustments from Premiums and Discounts</b>	<b>200,629.86</b>	<b>1,383,484.81</b>
<b>Total Capital Gains or Losses</b>	<b>0.00</b>	<b>-84,578.82</b>
<b>Total Earnings during Period</b>	<b>1,933,247.21</b>	<b>16,449,594.31</b>



**Monthly Investment Report**  
**Fund 001 - POOLED FUND INVESTMENTS**  
**Investments by Fund**  
**June 30, 2023**

City of Roseville CA

CUSIP	Investment #	Issuer	Purchase Date	Remaining Cost	Par Value	Market Value	Current Rate	YTM/C 360	YTM/C 365	Maturity Days To Date Maturity
<b>C.A.M.P.</b>										
CAMP	12028	CALIFORNIA ASSET MANAGEMENT	12/01/2022	0.00	62,441,860.20	0.00	5.240	5.168	5.240	1
<b>Subtotal and Average</b>				<b>0.00</b>	<b>62,441,860.20</b>	<b>0.00</b>		<b>5.168</b>	<b>5.240</b>	<b>1</b>
<b>Local Agency Investment Funds</b>										
LAIF	10022	LOCAL AGENCY INVESTMENT FUND	07/01/2022	31,283,989.57	31,283,989.57	31,283,989.57	3.167	3.123	3.167	1
<b>Subtotal and Average</b>				<b>31,283,989.57</b>	<b>31,283,989.57</b>	<b>31,283,989.57</b>		<b>3.124</b>	<b>3.167</b>	<b>1</b>
<b>Money Market</b>										
31846V203	11530	FIRST AMERICAN GOVT FUNDS	07/01/2022	23,622,762.18	23,622,762.18	23,622,762.18	4.680	4.615	4.680	1
SWEEP	11528	US BANK	07/01/2022	51,333,058.22	51,333,058.22	51,333,058.22	4.944	4.876	4.944	1
ADJ US BANK BAL	11640	US BANK	07/01/2022	1,025,403.00	1,025,403.00	1,025,403.00				1
<b>Subtotal and Average</b>				<b>75,981,223.40</b>	<b>75,981,223.40</b>	<b>75,981,223.40</b>		<b>4.730</b>	<b>4.795</b>	<b>1</b>
<b>Corporate Notes</b>										
023135AZ9	11807	AMAZON	11/15/2019	6,213,900.00	6,000,000.00	5,833,800.00	2.800	1.984	2.011	08/22/2024 418
023135CF1	11998	AMAZON	06/02/2022	5,016,500.00	5,000,000.00	4,761,650.00	3.300	3.181	3.225	04/13/2027 1,382
037833EB2	11919	APPLE INC	03/03/2021	9,930,000.00	10,000,000.00	9,014,700.00	0.700	0.833	0.845	02/08/2026 953
29449WAE7	11933	BANK OF MONTREAL	05/11/2021	2,175,096.00	2,200,000.00	1,947,484.00	1.000	1.235	1.252	01/09/2026 923
06051GGT0	11876	BANK OF AMERICA	10/06/2020	6,496,200.00	6,000,000.00	5,771,220.00	3.093	1.049	1.064	10/01/2025 823
06048WK41	11893	BANK OF AMERICA	11/25/2020	5,000,000.00	5,000,000.00	4,476,350.00	0.850	0.787	0.798	11/25/2025 878
06048WM31	11931	BANK OF AMERICA	05/28/2021	5,000,000.00	5,000,000.00	4,376,100.00	1.250	1.232	1.250	05/28/2026 1,062
06048WM64	11952	BANK OF AMERICA	07/14/2021	7,000,000.00	7,000,000.00	6,057,660.00	1.200	1.183	1.199	06/25/2026 1,090
06048WV56	11996	BANK OF AMERICA	05/05/2022	5,000,000.00	5,000,000.00	4,715,000.00	4.000	3.945	4.000	05/05/2026 1,039
110122CN6	11940	BRISTOL MYERS	06/16/2021	5,521,500.00	5,000,000.00	4,785,100.00	3.200	1.037	1.052	06/15/2026 1,080
14913R2H9	11905	CATERPILLAR FINANCIAL	01/14/2021	2,004,800.00	2,000,000.00	1,810,240.00	0.800	0.739	0.749	11/13/2025 866
14913R2Q9	11964	CATERPILLAR FINANCIAL	09/16/2021	6,036,420.00	6,000,000.00	5,335,980.00	1.150	1.010	1.025	09/14/2026 1,171
166764BW9	11924	CHEVRON CORP NOTE	04/28/2021	5,142,850.00	5,000,000.00	4,685,100.00	1.554	0.821	0.832	05/11/2025 680
166764BL3	11941	CHEVRON CORP NOTE	06/16/2021	7,644,000.00	7,000,000.00	6,662,810.00	2.954	1.015	1.030	05/16/2026 1,050
17325FAS7	11754	CITIBANK NA	05/08/2019	3,100,620.00	3,000,000.00	2,965,380.00	3.650	2.842	2.882	01/23/2024 206
17330PUT4	12014	CITIBANK NA	07/29/2022	5,000,000.00	5,000,000.00	4,802,650.00	5.000	4.931	5.000	07/29/2027 1,489
40139LBC6	11937	GUARDIAN LIFE	05/06/2021	9,937,700.00	10,000,000.00	8,900,100.00	0.875	1.000	1.014	12/10/2025 893
459200JZ5	11960	IBM CORP	07/14/2021	7,184,450.00	6,500,000.00	6,195,475.00	3.300	1.045	1.060	05/15/2026 1,049
45230BAT6	11763	ILLINOIS TOOL WK	06/17/2019	5,253,600.00	5,000,000.00	4,933,950.00	3.500	2.322	2.354	03/01/2024 244





City of  
**Santa Monica**

**Cash and Investment Report**  
**August 31, 2023**

Prepared by:  
Gigi Decavalles-Hughes, Director of Finance/City Treasurer  
David R. Carr, Assistant City Treasurer



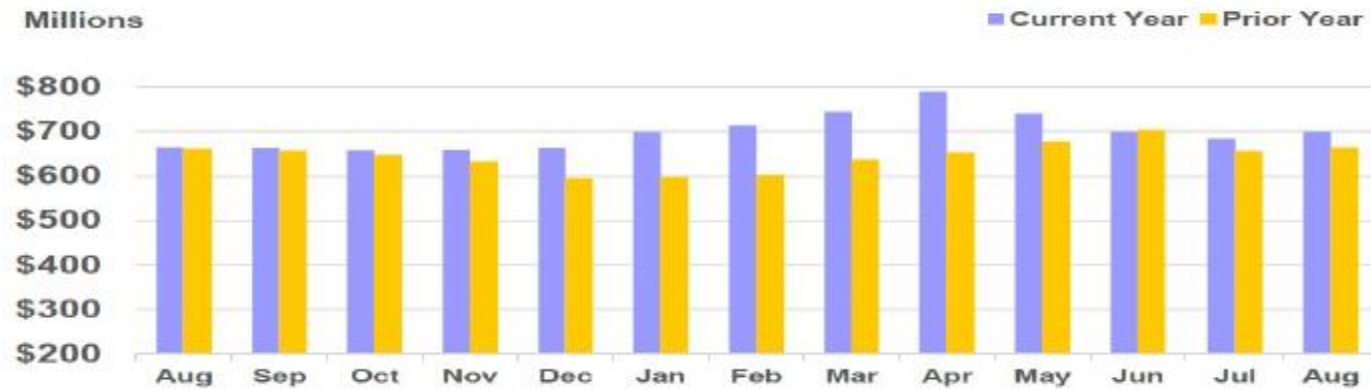
**City of Santa Monica**  
**Cash Receipts, Disbursements and Cash Balances**  
**August 31, 2023**

<b>Petty Cash/Change Funds</b>	<b>\$23,957.50</b>
<b>Cash Held in General Bank Account</b>	
US Bank (1)	\$42,190,939.59
Total Cash Held in General Bank Account	<u>\$42,190,939.59</u>
<b>Invested Funds</b>	
BNY Mellon Custodial Account	
Corporate Bonds	\$91,186,292.19
US Treasuries	\$9,909,875.00
Municipal Bonds	\$53,014,565.35
Supranationals	\$32,771,413.33
Commercial Paper	\$0.00
Federal Agencies Securities	<u>\$412,183,153.82</u>
Total BNY Mellon Custodial Account	\$599,065,299.69
State of California Local Agency Investment Fund - City	<u>\$58,326,294.81</u>
Total Invested Funds	<u>\$657,391,594.50</u>
<b>Total Pooled Cash and Invested Funds</b>	<b>\$699,582,534.09</b>
<b>Restricted Cash/Investments Held in Trust/Debt Proceeds</b>	
BNY-2017 City Services Building PFA	\$242,435.61
BNY-2018 Fire Station 1 PFA	\$16,728.40
BNY-2021 Parking Structure 6 Refunding Series A & B	\$5,445.20
BNY-2021 City Yards PFA	\$6,814,519.53
U.S. Bank-Water Enterprise Revenue Bonds-2021	\$38,959,349.62
U.S. Bank-Civic Center Parking Project 2015 Lease Revenue Bonds	\$2,212.56
U.S. Bank-RDA 2011 Tax Allocation Bonds	\$2,292,729.20
U.S. Bank-Earthquake Recovery Redevelopment 2006	
Tax Allocation Refunding Bonds Series A & B	<u>\$5,274.47</u>
<b>Total Restricted Cash/Investments Held in Trust</b>	<b>\$48,338,694.59</b>
<b>Other Restricted Funds/Funds Held in Trust</b>	
Cemetery Perpetual Care Fund (3)	\$15,642,189.58
Mausoleum Perpetual Care Fund (3)	\$1,948,523.94
Union Bank - Santa Monica Redevelopment Successor Agency RPTTF	\$3,177,430.20
Union Bank - HUD Depository Account (4)	\$252,493.81
Union Bank - Payroll Account	\$5,987,047.87
Union Bank - Public Agency Family Self Sufficiency Program (2)	\$95,120.27
Union Bank - Emergency Housing Vouchers (5)	\$219,865.60
State of California Local Agency Investment Fund - RDA	<u>\$897.67</u>
<b>Total Other Funds Held in Trust</b>	<b>\$27,323,568.94</b>
<b>GRAND TOTAL</b>	<b>\$775,268,755.12</b>

# Investment Highlights

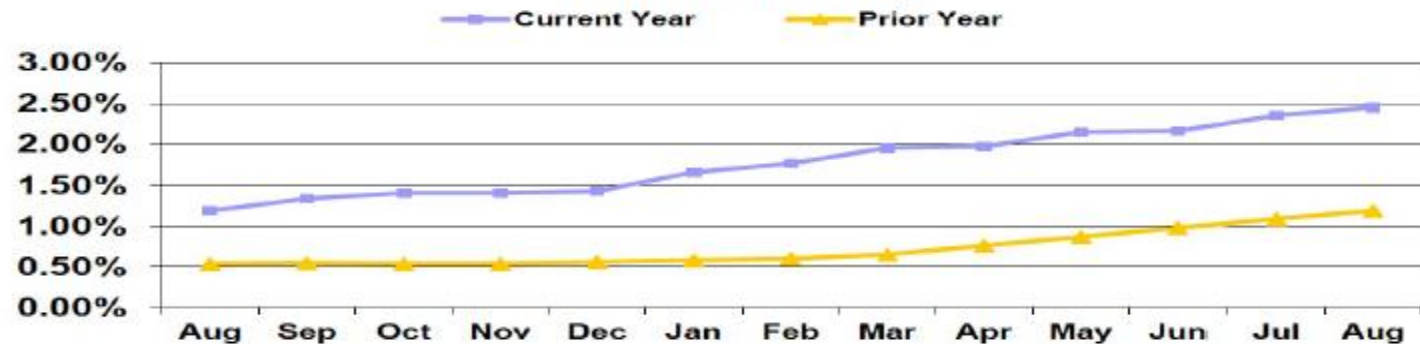
## August 31, 2023

### Portfolio Size



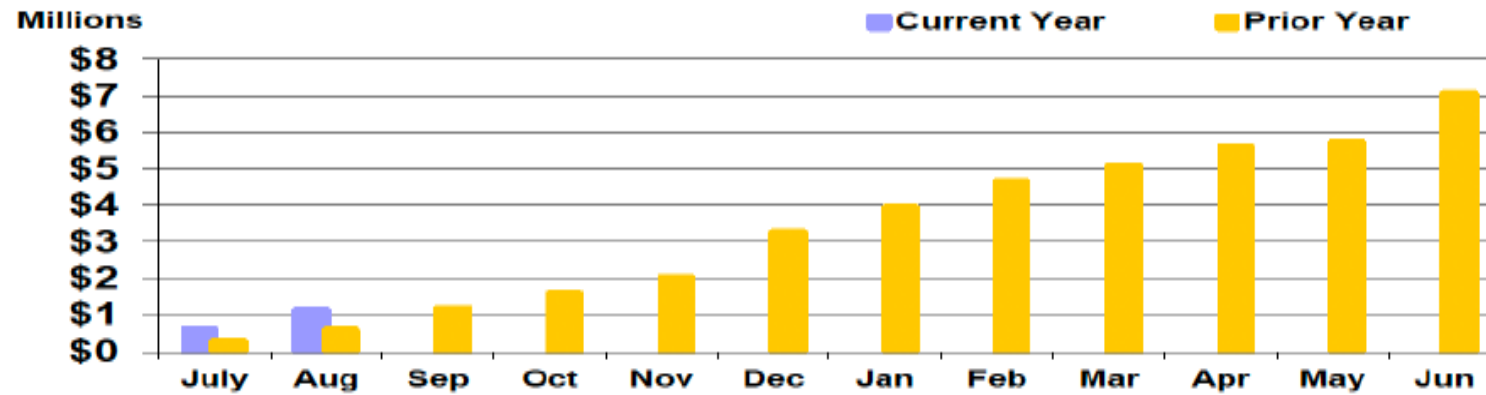
- As of August 31, 2023, the book value of the pooled cash and investment portfolio was \$699.6 million, \$15.8 million more than in the prior month.
- Portfolio value is \$35.4 million more than one year ago, but approximately \$75.9 million less than at the start of the pandemic.

### Yield to Maturity



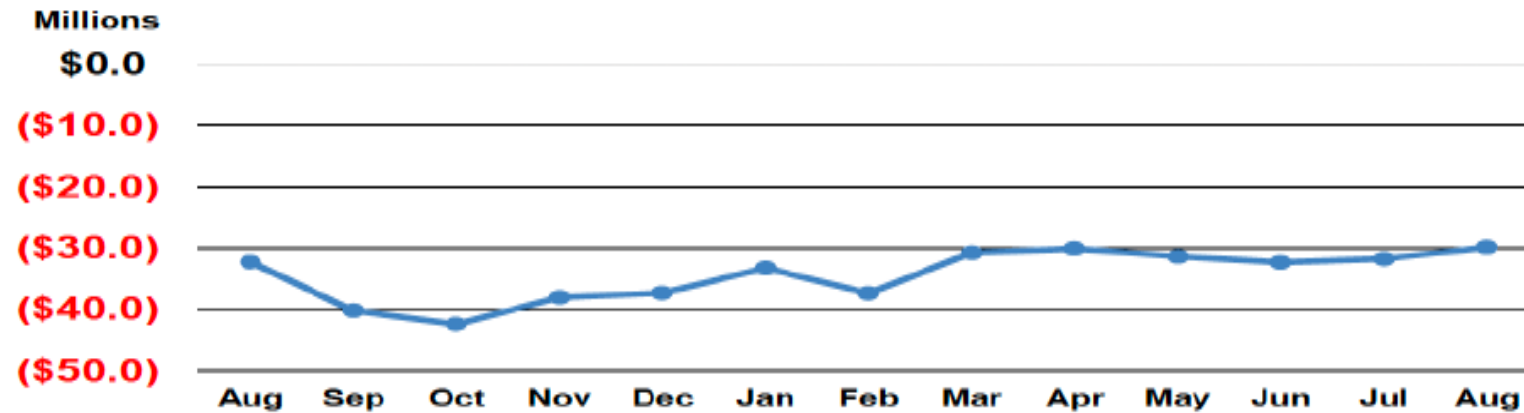
- As of August 31, 2023, yield to maturity is 2.46%.
- The yield is ten basis points greater than July, and up one hundred twenty-seven basis points from one year earlier. The yield is fifty-five basis points higher than pre-pandemic levels.

### Fiscal Year-to-Date Investment Earnings (Cumulative by Month)



- Net investment income on a cash basis in August was \$0.5 million.
- Fiscal year-to-date investment earnings on a cash basis were up 85.7% from the same period last fiscal year.

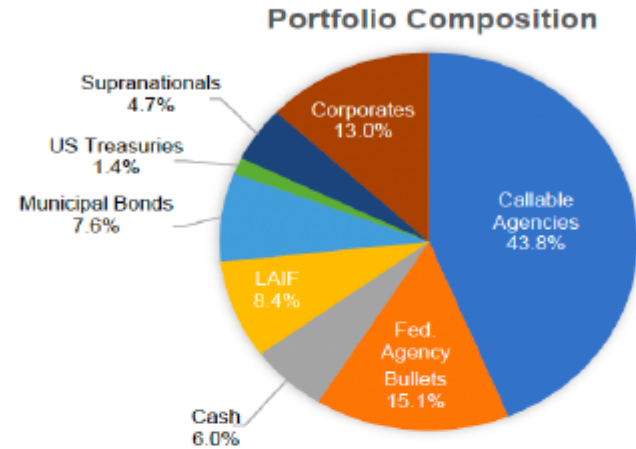
### Unrealized Gain/(Loss)



- As of August 31, 2023, the book value of the portfolio exceeds the market value by approximately \$29.8 million, continuing to reflect the significant interest rate increases over the last year.

**Portfolio Composition**

The portfolio is appropriately diversified and is in compliance with the City’s Investment Policy and applicable provisions of the State Government Code. The largest sector of the portfolio is Federal Agency Securities (58.9%). The remaining 41.1% includes Corporate Medium-Term Notes (13.0%), State Local Agency Investment Fund (LAIF) balances (8.4%), Municipal Bonds (7.6%), U.S. Treasuries (1.4%), Supranationals (4.7%), and Cash (6.0%). This portfolio mix allows the City to maintain its primary investment objectives of safety and liquidity while attaining a rate of return consistent with the City’s Investment Policy, investment strategy, and market conditions. Due to the sharp rise in rates, some funds have been shifted out of the State pool (LAIF) as LAIF returns are now lower than other short term maturity options.



**Socially Responsible Investing**

The City’s investment policy dictates certain socially responsible guidelines that should be adhered to in the investment of the City’s excess funds. A prime example of this is the prohibition of investments in fossil fuel-related companies and banks that lend to those companies. To enhance the socially responsible nature of the City’s investment portfolio, staff continues to research and analyze green bonds, social impact bonds, and other bonds where the proceeds are used for sustainable and socially responsible projects as potential investment options. Green bonds are issued by government agencies, private corporations, and institutions such as the World Bank to finance projects that benefit the climate and produce other environmentally beneficial projects. The proceeds from social impact bonds are used for projects such as affordable housing, reducing poverty, or other positive sustainable and social outcomes. Investments in green bonds and social impact bonds still need to meet the City’s legal and strategic investment parameters. As of August 31, 2023, the City’s portfolio had a total of \$22.2 million in green bonds and \$50.3 million in social impact bonds representing approximately 12.1% of total invested funds (excluding funds invested in the State Local Agency Investment Fund). Additionally, the environmental, social, and governance (ESG) profile of corporations has been added as a component of credit analysis when considering investments in corporate medium-term notes.

# City of Santa Monica Investment Committee

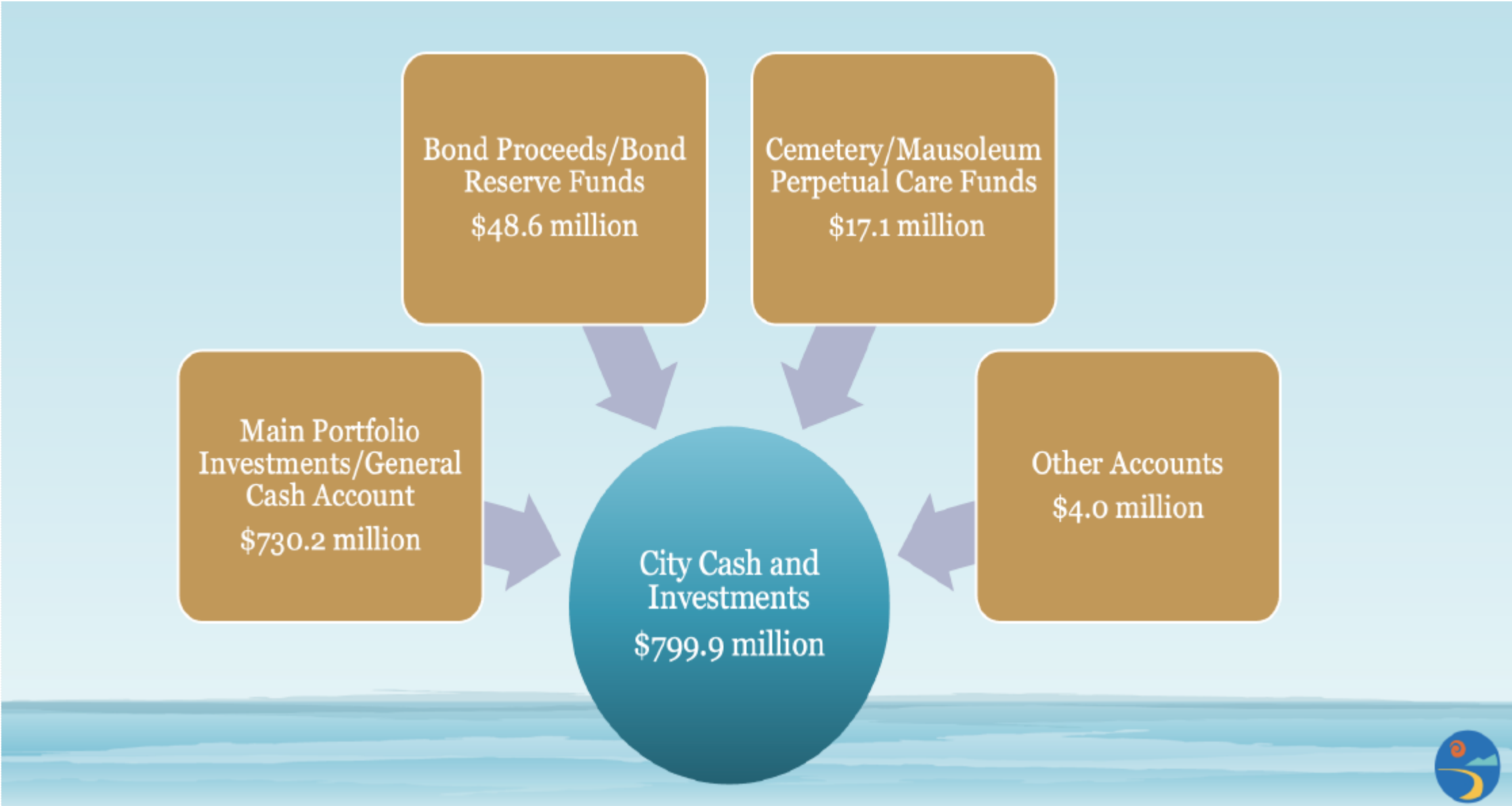
## Portfolio Information as of 9/30/2023

- Investment Overview
- Summary of Investment Activity
- Economic/Interest Rate Outlook
- Socially Responsible Investing



# City of Santa Monica Cash and Investments

As of September 30, 2023



# Investment Objectives

## **SAFETY:**

Safety of principal and preservation of capital is the foremost objective of the investment program.

## **LIQUIDITY:**

The City's investment portfolio remains sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

## **RATE OF RETURN:**

The City's investment portfolio is to be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, taking into account safety and liquidity requirements.

## **PASSIVE INVESTMENT STRATEGY:**

In most cases, investments are purchased with the intent that they will be held to maturity.



# Investment Policy vs Investment Strategy

- The Investment Policy, as well as state law, requires that investments will:
  - Preserve Principal (safety), meet daily cash flow needs (liquidity), and earn a rate of return.
  - The policy will generally be static and not typically change from year to year.
  - Presented to Council annually for approval.
  
- Investment Strategy
  - Converts the Investment Policy to a means of managing the portfolio.
  - Flexible and can be changed to make it more suitable to the City's current needs and market conditions.

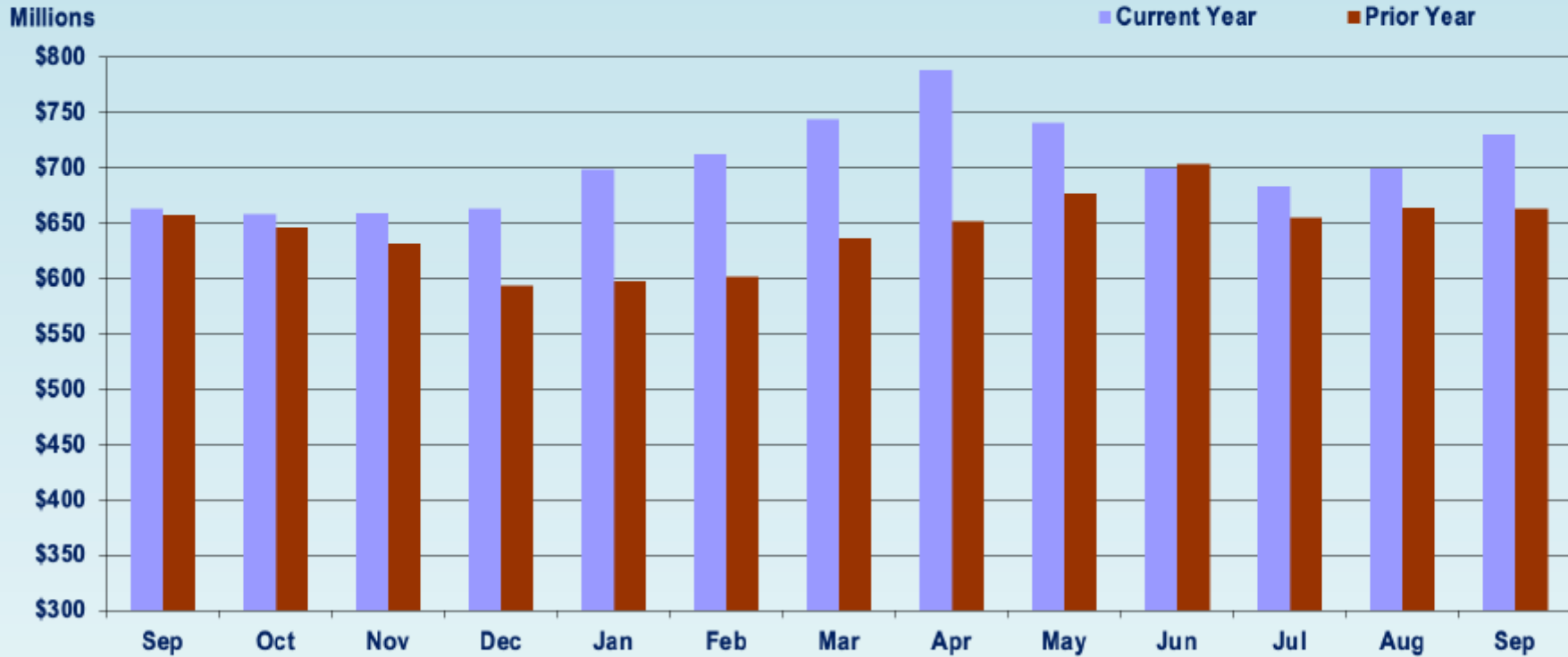




# Investment Highlights

As of September 30, 2023

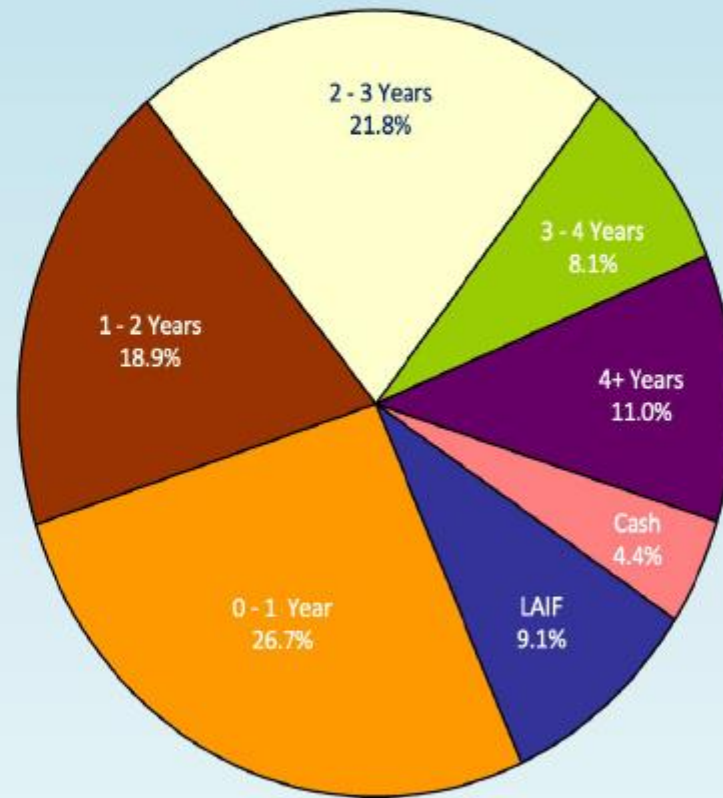
Portfolio Size



# Investment Highlights

As of September 30, 2023

## Portfolio Maturities



# Investment Highlights

As of September 30, 2023

<b>Pooled Portfolio Size (including cash in bank)</b> <ul style="list-style-type: none"><li>• Portfolio value increased \$30.9 million from June 2023.</li><li>• Portfolio value is \$67.0 million more than one year earlier.</li><li>• Portfolio value is approximately \$45 million less than right before the pandemic.</li></ul>	<b>\$730.2M</b>
<b>Yield to Maturity</b> <ul style="list-style-type: none"><li>• Yield as of 9/30/2023 rose fifty-one basis points in the quarter and is one hundred thirty-three basis points higher than one year earlier.</li><li>• <b>After plummeting to record lows during the height of the pandemic and staying low for an extended period, interest rates have been rising for the last 9 months and sharply during the last quarter.</b></li></ul>	<b>2.67%</b>
<b>Investment Income Received</b> <ul style="list-style-type: none"><li>• Fiscal year-to-date interest earnings are 129% more than the same period last fiscal year.</li></ul>	<b>\$2.734M</b>



# Economic Update

- » After rebounding strongly from the pandemic induced recession, the economy has begun to show signs of weakness. GDP has been negative for two straight quarters. Labor market remains strong. However, resurgence in COVID from new variants as well as Russian invasion of the Ukraine may continue to negatively impact economic recovery.
- » Inflation at or near 40- year highs.
- » Interest rates have spiked upward, and Fed has and likely will continue to raise rates in attempt to control inflation, possibly into 2023. Yield curve is showing signs of inversion (short term rates higher than longer term rates). Often a precursor for a recession.
- » The pace and amount of interest rate increases are creating opportunity for portfolio rebalancing.
- » Portfolio yield has begun to increase, but pace of increase will lag the market. However, a portion of the portfolio can now be invested out to 15-year maturities, which will eventually increase investment income.
- » The size of the portfolio is still approximately \$52.2 million since start of pandemic due to use of reserves and legal settlements. This will limit income growth.