

**February 25, 2014**

City Council Staff Report Summary

**January 2014 Treasurer's Monthly Investment Report**

Honorable Mayor and City Council – before you is the **January 2014** Treasurer's Monthly Investment Report. Per the City's adopted 2014 Investment Policy, we report investment activity monthly to the City Council.

The investment activity for **January 2014** was in compliance with the City's Investment Policy and the California Government Code, section 53600, et. al.

Page one of the investment report has the following summary investment information for the month ending **January 2014**: diff from pr. yr: **Net Port--** (\$ -8.7 mm)) \$ +51.5 mm **(\$ -5.05 mm)** (\$ 10.5 mm)  
**+\$81mm EI Bds (\$33 mm-Successor)**

	Page#	Jun 30, 2011	June 30, 2012	June 30, 2013	Jan 31, 2014	Feb 25, 2014
<b>MV Portfolio</b>	1,A1	\$442,295,968	\$420,743,369	\$440,794,778	<b>\$ 431,195,771</b>	<b>\$ 435,267,238</b>
<b>2011 A Elec Bonds</b>	1, 4	81,216,454	\$ 68,371,530	\$ 36,945,530	<b>\$ 20,910,801</b>	<b>\$ 20,910,801</b>
<b>Net MV Portfolio:</b>		\$361,079,514	\$352,371,839	\$403,849,248	<b>\$398,795,306</b>	<b>\$ 414,356,437</b>
<b>Effective Yield</b>	1,A1	1.53 %	1.38 %	1.00 %	<b>0.98 %</b>	<b>0.954 %</b>
<b>Avg Wt Mat:</b>	1,A1	1.5 yrs	1.4 yrs	1.8 yrs	<b>1.57 yrs</b>	<b>1.49 yrs</b>
Port Distrib:	<b>A2</b>		<b>Graph – Pie Ch</b>			
MMKT:	A1,	2.6 %	6.1 %	5.6 %	<b>1.4 %</b>	<b>3.7 %</b>
LAIF:	A1	14.7 %	19.9 %	13.7 %	<b>15.6 %</b>	<b>13.2 %</b>
Comml Pap:	A1	23.5 %	12.4 %	12.9 %	<b>12.6 %</b>	<b>14.4 %</b>
U.S. Treas	A1	0.00 %	0.0 %	0.0 %	<b>0.0 %</b>	<b>0.0 %</b>
Fed Agencies	A1	46.1 %	47.1 %	51.2 %	<b>49.8 %</b>	<b>47.5 %</b>
Med Term Notes	A1	13.1 %	14.5 %	16.6 %	<b>20.6 %</b>	<b>21.2 %</b>
Total:	A1	100.0 %	100.0 %	100.0 %	<b>100.0 %</b>	<b>100.0 %</b>
<b>Interest Earnings</b>	1,A4	<b>\$ 536,888</b>	\$ 482,239	\$ 368,302	<b>\$ 362,014</b>	<b>\$333,900</b>
<b>Capital Gains</b>	A4	\$ 48,261	\$ 38,819	\$ 6,138	<b>\$ 0</b>	<b>\$ 0</b>
<b>Tot YTD Int Earn:</b>	<b>A4</b>	<b>\$ 6,395,302</b>	<b>\$ 6,355,850</b>	<b>\$ 5,049,140</b>	<b>\$ 2,566,650</b>	<b>\$2,900,550</b>
<b>Budgeted Earns:</b>		<b>\$ 6,100,000</b>	<b>\$ 5,300,000</b>	<b>\$ 3,800,000</b>	<b>\$ 3,600,000</b>	<b>FY 13-14</b>
<b>Earns to Budget</b>		<b>\$ 295,302</b>	<b>\$ 1,055,820</b>	<b>\$ 1,250,000</b>		
<b>Earns to Budget:</b>		<b>104.84 %</b>	<b>119.9 %</b>	<b>133 %</b>	<b>71.3 %</b>	<b>80.6 %</b>

**PERFORMANCE: FY2013-14 = \$3.6 mm @1.10% yield on \$350mm average portfolio balance**

For the **Month of January 2014**, the portfolio's average weighted maturity was **1.6 years, yielding 0.98 %**. The market yield (interpolated yield) for **1.6 years was 0.22 %** - see the graph on **pages 4 & 5** of the City Council letter - the portfolio exceeded the interpolated yield by **0.76 %** or additional earnings of approximately **\$ 269,907**. See **attachments, page 5** for historical performance.

Current **year to date (Jan 2014)** portfolio earnings are about **\$2,566,650 (A-4)**, approximately **\$ 1,877,265** over current market levels – interpolated yield for 1.6 years - **(\$ 658,267 ytd)**.

For comparison, the past **fiscal year 2012-13**, we earned approximately **\$5.049 million dollars**, which was an estimated **\$4,001,297** over market interest levels **(\$984,401)**. Summary interest performance can be seen on page 5 of the report attachments.

**For FY 2012-2013: \$5.0mm /\$3.8mm = 133 % CM expenses (approx. \$850K):\$4.2mm /\$3.8mm = 110%**

**S & P Rating for Portfolio:**

**August 5, 2011**, Friday, after the financial markets had closed, S&P downgraded the U.S. Treasury debt and issues of the Federal Agencies (FNMA, FHLB, FFCB, FHLMC) from AAA to AA+.

**August 8, 2011** (the following Monday) the City's investment pool was notified it was being downgraded by S&P from AAA to AA. This downgrade reflects the holdings or securities the pool currently has (approximately 47% in Federal Agencies) and not on the management of the pool. **S&P reviewed** our investment portfolio on **August 15, 2013** with an onsite visit and reaffirmed a credit rating of **AAf** and a volatility rating of **S1**.

The downgrade does not mean bankruptcy – the downgrade does not have a material effect on the City's investment pool – the City continues to be paid all principal and interest on all investment holdings.

**Interest Rate Environment:**

The current economic environment, with historically low interest rates, reflects the return on the City's investment pool. The Federal Funds rate (the overnight rate that banks lend to each other) was reduced in **December 2008 to its current level or target range of 0.0% to 0.25%**. Federal Reserve Chairman Ben Bernanke, acknowledging a slow or "no" growth economy, stated he was prepared to keep interest rates at this low level until the end of 2014 and even into 2015. New Chairman of the Fed is Janet Yellen.

Federal Open Market Committee (**FOMC**) meeting of **January 29, 2014** maintained the Fed Funds level at current levels with the policy statement of "**Growth**"- a change of language from the past four years of "**a risk to growth**". The Committee also issued a communiqué that stated that in the future the Fed Funds rate and FOMC accommodation will remain unchanged until the national unemployment rate falls to below **6.5%** and/or the inflation rate moves above **3%**. Today, Fed Funds closed at **0.07 %**.

The next FOMC meeting is scheduled for March 19, **2014**. **We do not anticipate any change in Fed policy to interest rates, but will probably see an additional 'tapering' or reduction of security purchased by the Treasury of about \$10 billion (to \$65 billion)**

Interest Rate Levels: (as a graph shows on page 2 of 4 of the City Council letter)

Page 3	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12	6/30/13	1/31/14	2/25/14
Prime Rate:	5.00 %	3.25 %	3.25 %	3.25 %	3.25 %	3.25 %	3.25 %	3.25 %
Fed Funds:	2.00 %	0–0.25 %	0-0.25 %	0-0.25 %	0-0.25 %	0-0.25 %	0-0.25 %	0-0.25 %
3 mo TBills	1.74 %	0.19 %	0.18 %	0.02 %	0.08 %	0.03 %	0.02 %	0.04 %
1 yr TBills	2.26 %	0.49 %	0.31 %	0.18 %	0.20 %	0.15 %	0.09 %	0.10 %
2 yr TNotes	2.62 %	1.11 %	0.61 %	0.46 %	0.30 %	0.36 %	0.33 %	Wi 0.34 %
3 yr TNotes	2.91 %	1.62 %	0.97 %	0.80 %	0.40 %	0.65 %	0.67 %	0.69 %
5 yr TNotes	3.33 %	2.56%	1.78 %	1.76 %	0.72 %	1.40 %	1.49 %	1.54%
10 yr TNotes	3.97 %	3.54 %	2.93 %	3.16 %	1.65 %	2.49 %	2.65 %	2.70 %
COA Yield	3.78 %	2.26 %	1.87 %	1.52 %	1.38 %	1.00 %	0.98 %	0.95 %
						Interpolated Yield:	0.22 %	0.20 %

Additional pressure for keeping interest rates low is the uncertainty of the European debt crises, which includes the countries of Greece, Italy, Spain, Ireland, Portugal (PIIGS) and France, concern over the financial health of the major Euro banks. **10yr: Greek: 7.23% Italian: 3.58% Spanish: 3.54% Portugal: 4.82% French: 2.23% UK: 2.74% Germany: 1.64% Swiss: 0.97% Euro is \$1.3744, down from 1.3766**

**France was downgraded by Moody's Investor Service from Aaa to Aa+ on Nov 20, 2012 – S&P downgraded in Jan 2013. Germany is on negative watch by Moody's Investor Service (currently has AAA rating)**

**ECONOMIC DATA:** We continue to see a slow recovery to the national economic environment:

**Unemployment – the graph on page 3** of Investment Report – shows the January **rate at 6.6%**, down 0.1% from the December 2013 level 6.7%. The drop of 0.1% is smaller than the November / December change of 7.3% to 7.0%. These values are below the past 12 month average of 7.4%.

**Non-farm payrolls** (new jobs created) have shown improvements in recent months. The month of January 2014 showed non-farm payrolls increased **by only 113,000**; the December **2013** value was revised slightly up **from 74,000 to 75,000**. Economist's target a monthly average of **160,000** new jobs created to continue our economic recovery. The past twelve month **average** has been about **186,000**.

**Retail Sales (less Autos) - the graph on page 4** of the Investment Report – shows December **2013** annualized values at **\$347.8 billion**, up from the November **2013 value of \$346.8 billion**, for an **annualized rate of 2.9%**. The **January 2014**, released after the Investment Report was prepared, showed a value of **\$347.7 billion**, basically unchanged from December value for an annualized increase of **2.8%**. The recent months are subject to revisions.

Economists are in general agreement that the recession ended in the second calendar quarter of 2009 (Jun). However, Corporations and small businesses continue to restructure and have additional layoffs. For example, Barnes and Nobles recently announced they would close up to 30% of existing stores. In addition, we are now over 4.75 years into a recovery, quite a long period for a recovery from a historical prospective.

I would be happy to answer any questions you may have about the City's investment report and program.

As of Friday, **January 31, 2014:**

**504 bank failures** in the past **10 yrs**

<b>FDIC – Bk Closings</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>Total</b>	<b>%</b>
Total:	5	26	52	92	157	140	25	3	0	0	4	<b>504</b>	
California:	0	0	1	4	13	17	5	0	0	0	0	<b>40</b>	<b>8.3</b>
Georgia:	0	3	10	23	23	25	5	1	0	0	0	<b>90</b>	<b>17.9</b>
Florida:	1	4	8	13	29	13	2	0	0	0	1	<b>71</b>	<b>14.1</b>
Illinois:	1	2	9	9	16	21	1	0	0	0	0	<b>59</b>	<b>11.7</b>

- Source is FDIC.gov website – “failed banks” **GA, FL, IL = 220 43.7**
- FDIC usually closes a bank on a Friday, in order to give the staff time to adjust to the closure, and to give the acquiring bank (if there is one) to make a transitional action.

Commodity prices – as of December 17, 2013:

Dow Jones:	<b>16,179</b>	<b>down</b>	<b>27.48</b>	points from previous day - - -
SP 500	<b>1,845</b>	<b>down</b>	<b>2.49</b>	points from previous day
<b>Crude Oil</b>	<b>\$ 102.13</b>	<b>down</b>	<b>\$ 1.04</b>	from previous day - New York Mercantile
Natural Gas	<b>\$ 5.22</b>	<b>down</b>	<b>\$ 1.00</b>	from previous day - Henry Hub
Gold	<b>\$ 1,340</b>	<b>up</b>	<b>\$ 7.90</b>	from previous day - London PM fix
Silver	<b>\$ 21.88</b>	<b>up</b>	<b>\$ 0.12</b>	from previous day