



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JUNE 9, 2015

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED
MARCH 31, 2015

Director of Administrative Services

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended March 31, 2015.

EXECUTIVE SUMMARY

This report provides a synopsis of investment activity for the City's three investment portfolios for the quarter ended March 31, 2015. These portfolios, which are managed by United American Capital Corporation (UACC) under the direction of the Treasurer, are categorized as the Irvine Pooled Investment Portfolio, Bond Proceeds Fund and Special District Funds. The market value of all investments under the Treasurer's management totaled \$730.74 million as of March 31, 2015.

Portfolio assets, allocations, average maturities, yields, and portfolio valuations are presented within this report. A discussion of market conditions is also provided to give perspective to these measurements.

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

The Finance Commission, at its regular meeting of June 1, 2015, recommended the City Council receive and file the Treasurer's Report by a unanimous vote. The Investment Advisory Committee, at its regular meeting of May 13, 2015, recommended City Council receive and file the Treasurer's Report by a unanimous vote of 4-0 (Committee Member Greenberg absent).

ANALYSIS

The Treasurer's office is responsible for the investment of the City's three fixed income portfolios in conformance with the Annual Investment Policy adopted by City Council. In accordance with the Investment Policy, management of the Irvine Pooled Investment Portfolio, Bonds Proceeds Portfolio and the Special Districts Portfolio have been delegated to a contract management firm, UACC, with full authority to execute investment transactions on behalf of the City. The Investment Policy is updated annually in accordance with the California State Government Code. Quarterly and annual

in accordance with the California State Government Code. Quarterly and annual treasury reports are provided on investment activity and performance information for the City's portfolios and submitted to the Investment Advisory Committee, Finance Commission, and City Council. The primary objectives of investing public funds in order of importance are, safety of principle, liquidity of funds, and return on investment. All securities owned by the City are held in safekeeping by a third party custodial bank acting as the agent for the City rather than held by a securities dealer or investment management firm. Any trade executed with a broker/dealer is required to settle with the City's safekeeping agent on a delivery versus payment basis, where the delivery of a security to the appropriate party is made only in the event the funds have been sent in full as payment for the security.

Irvine Pooled Investment Portfolio

The Irvine Pooled Investment Portfolio contains funds invested for the daily operational requirements of the City, funds reserved for economic uncertainties, and future rehabilitation and maintenance needs. The Irvine Pooled Investment Portfolio is a combination of several operational funds, including the City's Asset Management Plan (AMP) and funds earmarked for the development of the Orange County Great Park.

As of March 31, 2015, the book value (purchase price of securities as recorded on the City's books) of the Irvine Pooled Investment Portfolio was \$439.93 million and the average weighted yield to maturity was 0.89 percent. Fiscal year-to-date investment revenue (interest payments and capital gains) generated by the Irvine Pooled Investment Portfolio as of March 31, 2015 was \$2.39 million. The following chart compares the Irvine Pooled Investment Portfolio statistics over a rolling 12-month period.

Irvine Pooled Investment Portfolio Rolling 12-Month Quarterly Comparison

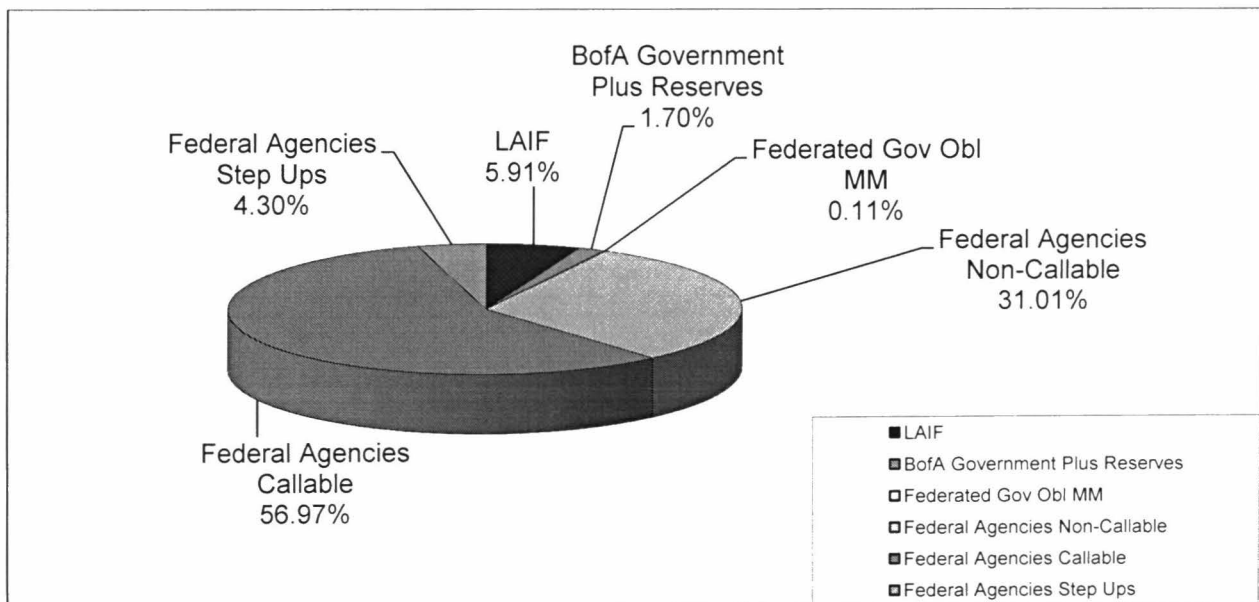
	March 31, 2015	Dec 31, 2014	Sept 30, 2014	June 30, 2014
Book Value	\$439,932,507	\$395,727,888	\$384,276,980	\$414,760,236
Market Value	\$440,906,767	\$395,007,261	\$383,467,567	\$414,767,525
Unrealized Gain/(Loss)	\$974,260	(\$720,627)	(\$809,413)	\$7,289
Unrealized Gain/(Loss) as % of Book Value	0.22%	(0.18%)	(0.21%)	0.00%
Average Yield To Maturity	0.89%	0.88%	0.86%	0.78%
Liquidity 0 –6 months	9.07%	10.91%	11.87%	20.25%
Average Years To Maturity	2.17 Years	2.26 Years	2.34 Years	2.20 Years
Effective Duration	2.09 Years	2.22 Years	2.29 Years	2.12 Years

The Irvine Pooled Investment Portfolio's book value increased by \$44.20 million from the last quarter. The increase in book value was due to the cyclical nature of the City's revenue stream that often fluctuates \$10 to \$40 million each quarter. Portfolio yield to maturity increased by 0.011 percent as investment balances increased in higher-yielding securities maturing in three to four year sector. With rates decreasing during the quarter, the unrealized loss became an unrealized gain. This is a normal result of the Irvine Pooled Investment Portfolio's effective duration of 2.09 years, and its price-sensitivity to changes in market interest rates.

To ensure the safety of the portfolio, investments that hold the highest credit quality are selected. The Irvine Pooled Investment Portfolio is comprised primarily of Federal Government sponsored entity debt, otherwise known as Federal Agencies. Although the Federal Agency securities were downgraded by Standard & Poor's to AA+ in August 2011, they continue to be regarded as among the safest securities in the global market. Two of the government sponsored agencies, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Company (Freddie Mac) remain under conservatorship by the Federal Government and carry an implicit guarantee by the Federal Government. Both of these agencies are carefully monitored by the City's investment manager to ensure the continued safety of the City's funds.

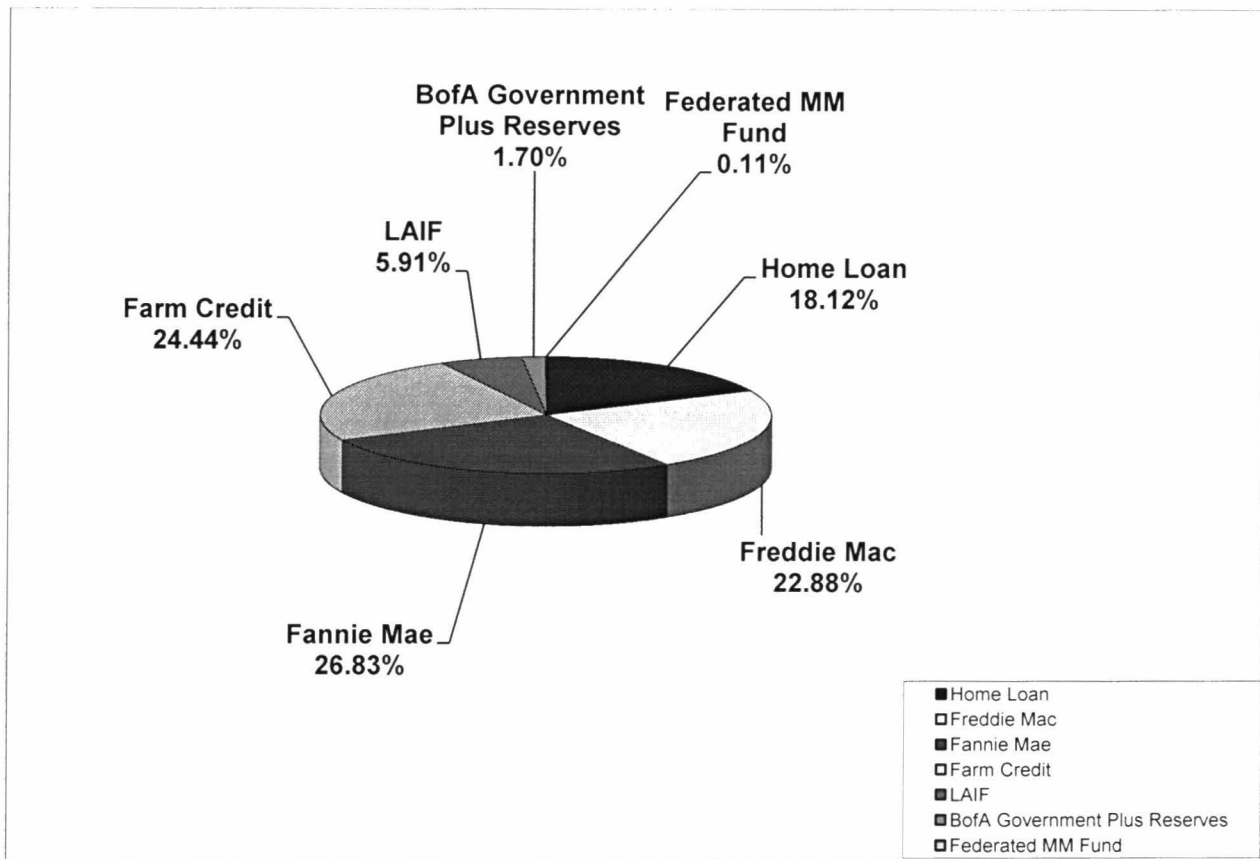
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Local Agency Investment Funds (LAIF) and the Federated Government Obligation money market fund. Chart 1 shows the asset allocation of the Irvine Pooled Investment Portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of March 31, 2015



To diversify, the City purchases securities from several different Federal Agencies. The four Federal Government sponsored entities the City owns are, Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Bank (Home Loan), and Federal Farm Credit Bank (Farm Credit). Chart 2 identifies portfolio holdings by issuer name.

**Irvine Pooled Investment Portfolio
Chart 2 - Allocation by Issuer Name
as of March 31, 2015**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of March 31, 2015, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was at 9.07 percent, which provides adequate liquidity to meet anticipated expenses. Chart 3, on the following page, is an aging of investment maturities up to 5 years (the maximum maturity allowable by policy and state code) of the Irvine Pooled Investment Portfolio.

Irvine Pooled Investment Portfolio
Chart 3 - Aging of Maturing Investments (Maturity Value)
as of March 31, 2015

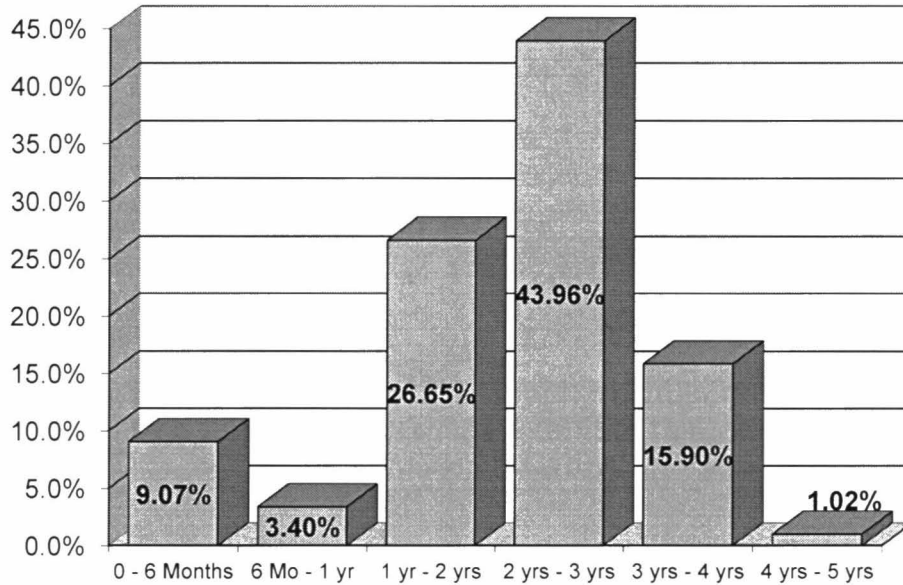
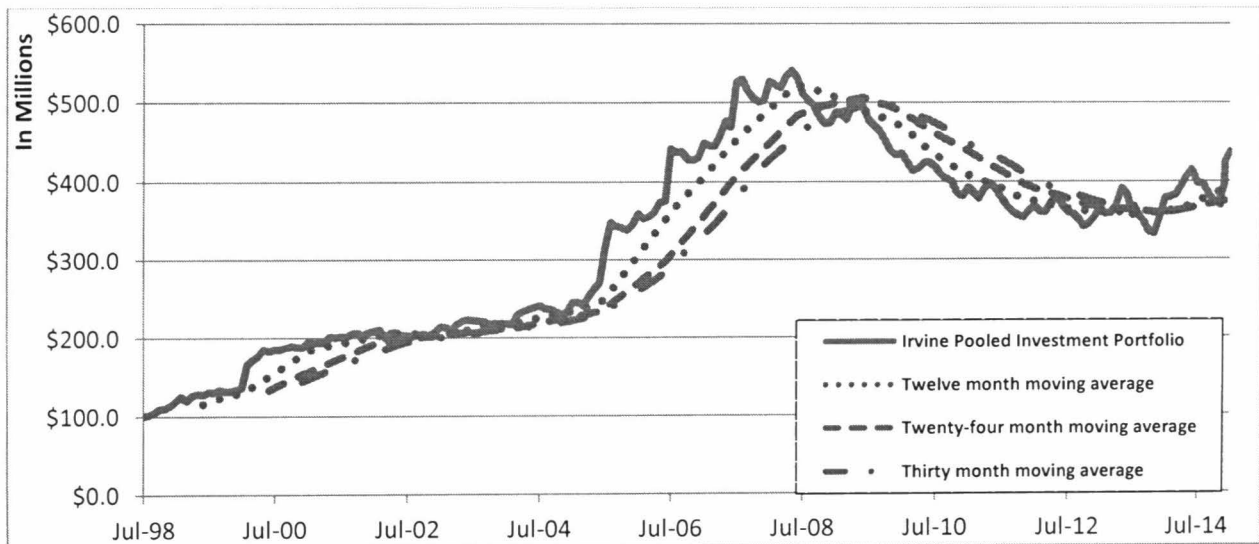
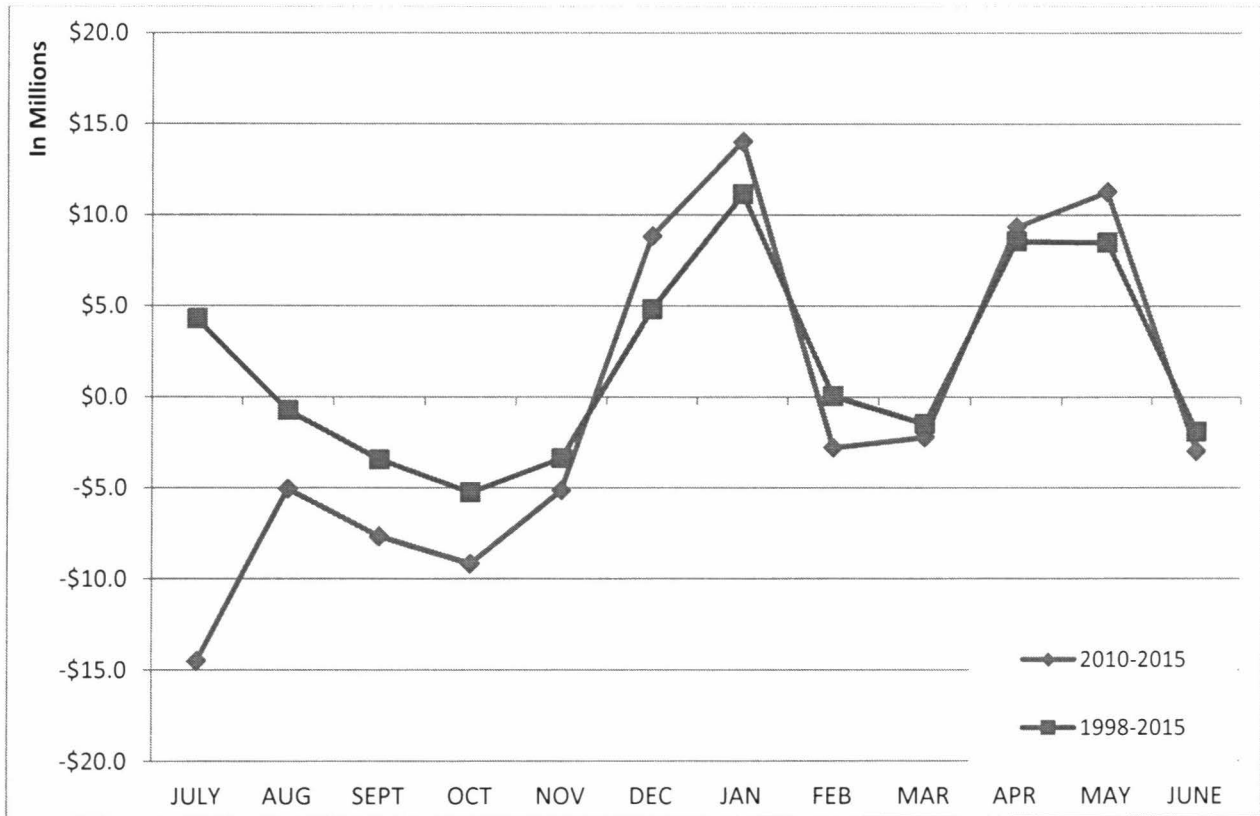


Chart 4 and chart 5 shows the volatility and cyclicalty of the Irvine Pooled Investment Portfolio fund balance and cash flows between July 1998 and March 2015.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
July 31, 1998 through March 31, 2015

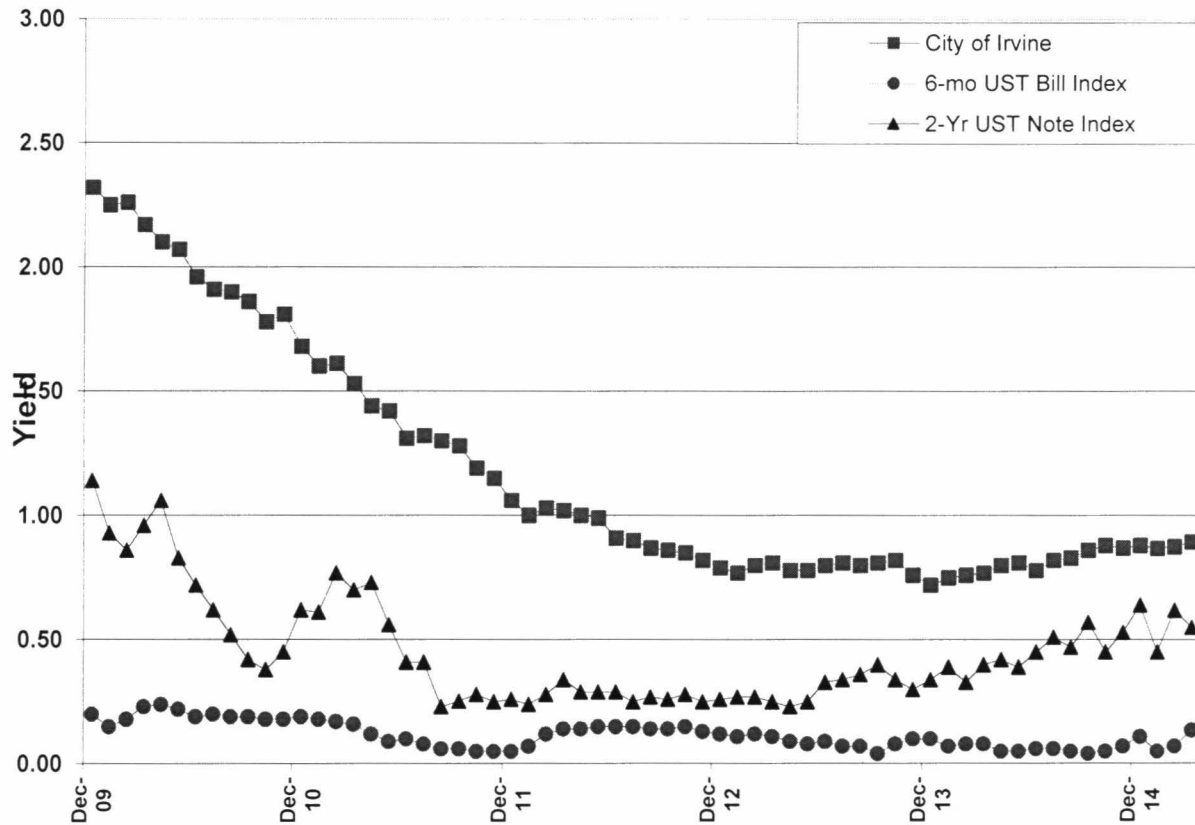


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)
July 31, 1998 through March 31, 2015



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's yield to maturity against two benchmarks set in the City's Annual Investment Policy; the 6-month United States Treasury (UST) Bill Index and 2-year UST Note Index. The benchmarks are used as a measure of the Irvine Pooled Investment Portfolio against market movement. Chart 6 compares the average yield to maturity of the Irvine Pooled Investment Portfolio to these benchmarks, and shows the spread (difference between the index and the yield to maturity) for the past five years. The City is experiencing a positive spread against both benchmarks. The Portfolio's yield is higher than the 6-month UST by 0.76 percent and higher than the 2-year UST by 0.35 percent.

**Irvine Pooled Investment Portfolio
 Chart 6 - Yield to Maturity Compared to Assigned Benchmarks
 December 2009 through March 2015**



The Irvine Pooled Investment Portfolio invests funds attributable to the AMP and the Great Park Corporation. Pertinent information related to the AMP and Great Park Corporation funds are explained in the following paragraphs.

Asset Management Plan Fund

Interest earnings for the AMP fund is allocated based on the AMP fund's average daily cash balance. The AMP earned interest of \$87,874 for the quarter ended March 31, 2015 based on an average daily cash balance of \$53.12 million.

Orange County Great Park Funds

The Great Park funds earned interest of \$68,170 for the quarter ended March 31, 2015. The Great Park funds had a combined average daily cash balance of \$40.89 million for the quarter ended March 31, 2015.

Bond Proceeds Fund Portfolio

The Bond Proceeds Fund Portfolio contains special district construction and administration funds that are not held by a trustee. These include older bond issues, funds on hand to finance the City's assessment district inspection and administration, and property assessments received from the County prior to being sent to the trustee. Investment strategy differs in the Bond Proceeds Fund Portfolio from the Irvine Pooled Investment Fund Portfolio due to different cash needs between the two. The Bond Proceeds Fund Portfolio requires greater liquidity to meet debt service payments.

The bullet points below provide a brief synopsis of the Bond Proceeds Portfolio for the quarter ended March 31, 2015.

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 29 Special Assessment District bond issues and one Community Facilities District. Investments in this Portfolio are made in accordance with each bond's indenture and the strategy is set according to the cash flow needs of the individual district. The Special District Funds Portfolio must also remain very liquid to provide project funds, when requested, as well as meet debt service payment requirements.

The bullet points below provide a brief synopsis of the Special District Funds Portfolio for the quarter ended March 31, 2015.

Market Conditions

During the third quarter in FY 2014-15 interest rates decreased with the yield curve flattening in the short end. The 3 month Treasury bill dropped 1.8 basis points ending the period at 0.02 percent. Two year Treasury notes fell 10 basis points to 0.55 percent, and the five year Treasury note fell 28 basis points to 1.37 percent.

Gross Domestic Product decreased from 2.20 percent to 0.20 percent due to severe winter weather, west coast port shutdowns, energy prices, a strong dollar, and continued geopolitical anxiety. Leading economic indicators continue to point to sluggish U.S. economic growth for at least another quarter or two. Employment data improved

with continuing jobless claims dropping from 2.42 million to 2.31 million. Most economists believe the Federal Reserve will not raise rates prior to the September 2015 meeting, as it will remain focused on its dual mandate of full employment and price stability. In summary, bond volatility will remain subdued until there is enough evidence to suggest the U.S. economy is rebounding following the weaker than expected past quarter.

ALTERNATIVES CONSIDERED

None. The Treasurer's Report is intended to provide historical information about the City's investment portfolios. Pursuant to the City's Investment Policy, the Treasurer is required to submit quarterly Treasurer's reports to the City Council.

FINANCIAL IMPACT

Fiscal year-to-date investment income for the Irvine Pooled Investment Portfolio, Bond Proceeds, and Special Districts portfolios totaled \$2.63 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer