




REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: March 10, 2015

TITLE: TREASURER'S REPORT FOR THE QUARTER ENDED
DECEMBER 31, 2014



Director of Administrative Services



City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the quarter ended December 31, 2014.

EXECUTIVE SUMMARY

This report provides a synopsis of investment activity for the City's three investment portfolios for the quarter ended December 31, 2014. 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 was \$669.21 million as of December 31, 2014.

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

COMMISSION/BOARD/COMMITTEE RECOMMENDATION

The Finance Commission, at its regular meeting of February 17, 2015, recommended the City Council receive and file the Treasurer's Report for the quarter ended December 31, 2015 by a unanimous vote of 5-0. The Investment Advisory Committee, at its regular meeting of February 11, 2015, recommended City Council receive and file the Treasurer's Report by a unanimous vote of 5-0.

ANALYSIS

The Treasurer's office is responsible for investing the City's three fixed income portfolios in conformance with the Annual Investment Policy adopted by City Council. The Investment Policy is updated annually in accordance with the California State Government Code. Quarterly and annual treasury reports providing investment activity and performance information for the City's portfolios are submitted to the Investment Advisory Committee, Finance Commission, and City Council. The primary objectives of

investing public funds are the protection of principal (safety), provision of ample funds to meet cash requirements (liquidity), and to obtain a competitive market rate of return (yield), in that order. All securities owned by the City are held in safekeeping by a third party custodial bank acting as agent for the City.

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 December 31, 2014, the book value (purchase price of securities as recorded on the City's books) of the Irvine Pooled Investment Portfolio was \$395.73 million and the average weighted yield to maturity was 0.88 percent. Fiscal year-to-date investment income (interest payments and capital gains) generated by the Irvine Pooled Investment Portfolio as of December 31, 2014 was \$1.60 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**

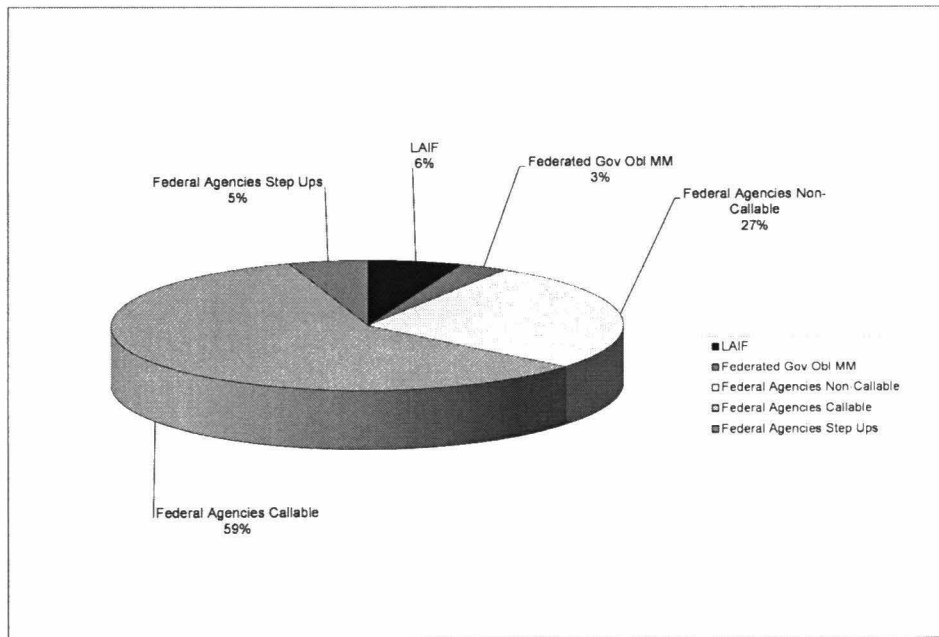
	Dec 31, 2014	Sept 30, 2014	June 30, 2014	March 31, 2014
Book Value	\$395,727,888	\$384,276,980	\$414,760,236	\$382,978,062
Market Value	\$395,007,261	\$383,467,567	\$414,767,525	\$381,555,730
Unrealized Gain/(Loss)	(\$720,627)	(\$809,413)	\$7,289	\$(1,422,332)
Unrealized Gain/(Loss) as % of Book Value	(0.18%)	(0.21%)	0.00%	(0.37%)
Average Yield To Maturity	0.88%	0.86%	0.78%	0.77%
Liquidity 0 – 6 months	10.91%	11.87%	20.25%	17.33%
Average Years To Maturity	2.26 years	2.34 years	2.20 Years	2.40 Years
Effective Duration	2.22 years	2.29 years	2.12 Years	2.28 Years

The Irvine Pooled Investment Portfolio's book value increased by \$11.45 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 \$5 to \$10 million each quarter. Portfolio yield to maturity increased by two basis points (0.02 percent) as higher-yielding securities were purchased in the three to four year maturity sectors. Unrealized losses continue to fluctuate with overall market valuations.

To ensure the safety of the portfolio, investments with 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 explicit guarantee by the Federal Government. Both of these agencies are carefully monitored by the City's investment manager to ensure the continued safety of City funds.

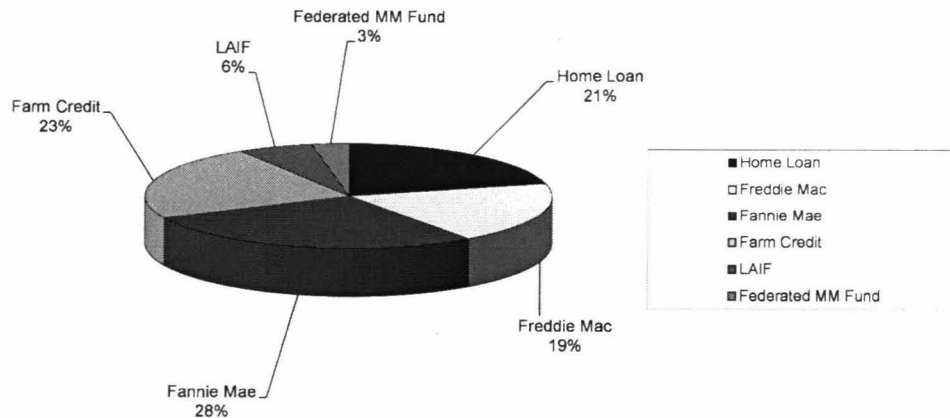
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in LAIF (Local Agency Investment Funds) and the Federated Government Obligation money market fund. Chart 1 shows the asset allocation of the Irvine Pooled Investment Portfolio.

**Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of December 31, 2014**



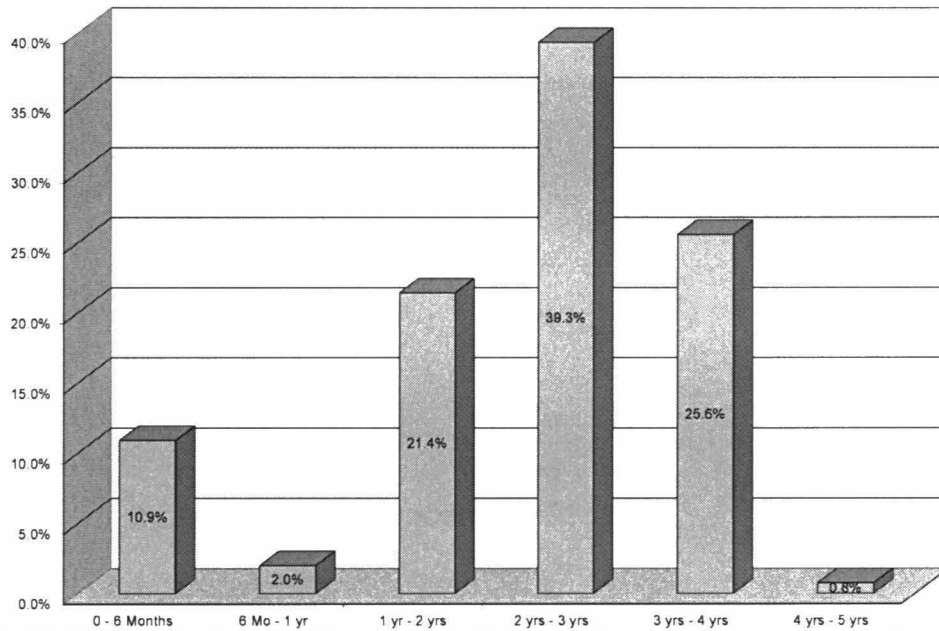
The Irvine Pooled Investment Portfolio includes securities from several different Federal Agencies. Securities of the four Federal Government sponsored entities that the City owns are Fannie Mae, Freddie Mac, Federal Home Loan Bank (Home Loan), and Federal Farm Credit Bank (Farm Credit). Chart 2 identifies portfolio holdings by issuer name.

**Irvine Pooled Investment Portfolio
Chart 2 - Allocation by Issuer Name
as of December 31, 2014**



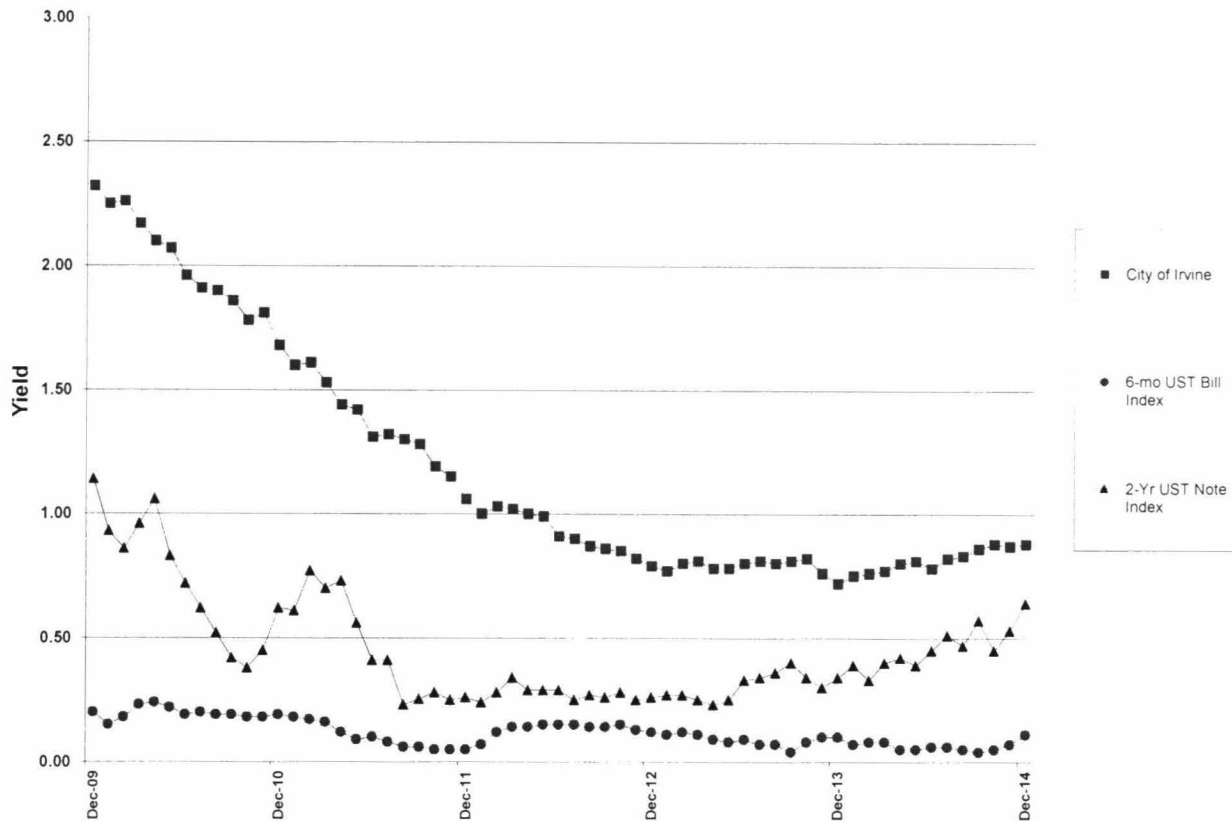
Another key component of portfolio management is ensuring the City has adequate funds available to meet expenses. The investment manager projects cash needs to make informed and appropriate investment decisions. As of December 31, 2014, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 10.91 percent, which provides adequate liquidity to meet anticipated expenses. Chart 3, on the following page, provides 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
as of December 31, 2014**



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's yield to maturity against two benchmarks established in the City's Annual Investment Policy: the 6-month United States Treasury (UST) Bill Index and 2-year UST Note Index. Graph 1, on the following page, 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 in comparison to both benchmarks. The Portfolio's yield is higher than the 6-month UST by 0.77 percent and higher than the 2-year UST by 0.24 percent.

Irvine Pooled Investment Portfolio
Graph 1 - Yield to Maturity Compared to Assigned Benchmarks
December 2009 through December 2014



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 Funds

Interest earnings for the AMP funds are allocated based on the AMP fund average daily cash balance. The AMP earned interest of \$92,651 for the quarter ended December 31, 2014 based on an average cash balance of \$52.13 million.

Orange County Great Park Funds

The Great Park funds earned interest of \$55,047 for the quarter ended December 31, 2014. The Great Park funds had a combined average daily cash balance of \$31.19 million for the quarter ended December 31, 2014.

Bond Proceeds Fund Portfolio

The Bond Proceeds Fund Portfolio contains special district construction and administration funds 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 before being sent to the trustee. Investment strategy differs in the Bond Proceeds Fund Portfolio from the Irvine Pooled Investment Portfolio due to different cash needs. 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 December 31, 2014.

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 29 Special Assessment District bond issues and two Community Facilities Districts. 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 liquid to provide project funds, when needed, and to meet debt service payment requirements.

The bullet points below provide a brief synopsis of the Special District Funds Portfolio for the quarter ended December 31, 2014.

Market Conditions

Compared to the previous quarter, bond interest rates during the second quarter in Fiscal Year (FY) 2014-15 ended higher in the 1-month to the 3-year sectors of the yield curve (ranging from 3 to 15 basis points), and lower in the 5-year to 30-year sectors of the curve (ranging from 2 to 34 basis points), continuing a trend of yield curve flattening for longer-dated securities. Domestic economic data during the quarter demonstrated continued growth in the U.S. economy; however, concerns over an economic slowdown in Europe contributed to the higher bond prices seen in the long end of the curve.

Since the Federal Open Market Committee (Committee) concluded its quantitative easing program in October, there is now anticipation of a possible increase in the federal funds rate. The Committee maintained the target range for the federal funds rate at 0 to 0.25% in both meetings during the quarter, noting that although the labor market has improved, inflation continues to run below expectations. At its December meeting, the Committee said it would take a "patient" approach toward normalizing monetary policy and suggested an increase in the federal funds rate would likely occur around mid-2015.

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 \$1.68 million with investments structured for security and liquidity.

REPORT PREPARED BY Michele C. Lund, City Treasurer