



## COUNCIL AGENDA REPORT

### City of Anaheim OFFICE OF THE CITY TREASURER

**DATE:** JANUARY 27, 2015  
**FROM:** OFFICE OF THE CITY TREASURER  
**SUBJECT:** INVESTMENT PORTFOLIO REPORT – DECEMBER 2014

**ATTACHMENT (Y/N):** YES **ITEM #**

#### RECOMMENDATION:

That the City Council, by Motion, approve the Investment Portfolio Report for December 2014.

#### DISCUSSION:

This is the investment report for the City's general pool for the month ending December 31, 2014. The report is provided to ensure that the City Council is informed as to the investment activities and fulfills the reporting requirements of the City's adopted investment policy.

#### COMPLIANCE:

All investment transactions were executed in accordance with the California Government Code and the City's Investment Policy. There is sufficient liquidity to meet the City's anticipated expenditure requirements for the next six months.

#### INVESTMENT SUMMARY:

The following table shows summary investment information for the month ending December 31, 2014:

	Short-term Portfolio	Long-term Portfolio	Total Portfolio Values
Portfolio Balance (Market Value) *	\$ 95,608,216	\$ 280,667,666	\$ 376,275,882
Effective Yield	0.21 %	1.35 %	1.06 %
Avg. Weighted Maturity	11 Days	2.4 Years	1.8 Years
Net Earnings	\$ 16,063	\$ 311,189	\$ 327,252
Benchmark**	0.01 %	0.81 %	0.57 %

\* Portfolio balance includes approximately \$1.2 million of the 2011A Electric Bond project funds (December 2014)

\*\* Benchmark value is the Interpolated Treasury Yield to the Portfolio's Average Weighted Maturity

#### INVESTMENT ACTIVITIES

The City Treasurer's Investment Portfolio has a current credit rating of "AAf" from Standard and Poor's (S&P). This rating was effective August 8, 2011, as a result of the action of S&P downgrading the debt issues of the United States Treasury and Federal Agencies from a credit rating of "AAA" to "AA+". The credit rating reflects the investment holdings of the City's Investment Portfolio (approximately 54% of funds in Federal Agency issues) and not the management of the investment fund.

It should be pointed out the downgrade in credit rating is the sole action of Standard and Poor’s, since the other two major national credit firms of Moody’s Investor Services and Fitch Ratings have maintained the “AAA” credit rating on all U.S. Treasury and Federal Agency debt issues. Even with the credit downgrade to the investment portfolio, the investment portfolio is still eligible and qualifies as a ‘permitted investment’ for City bond funds (i.e., project or acquisition funds).

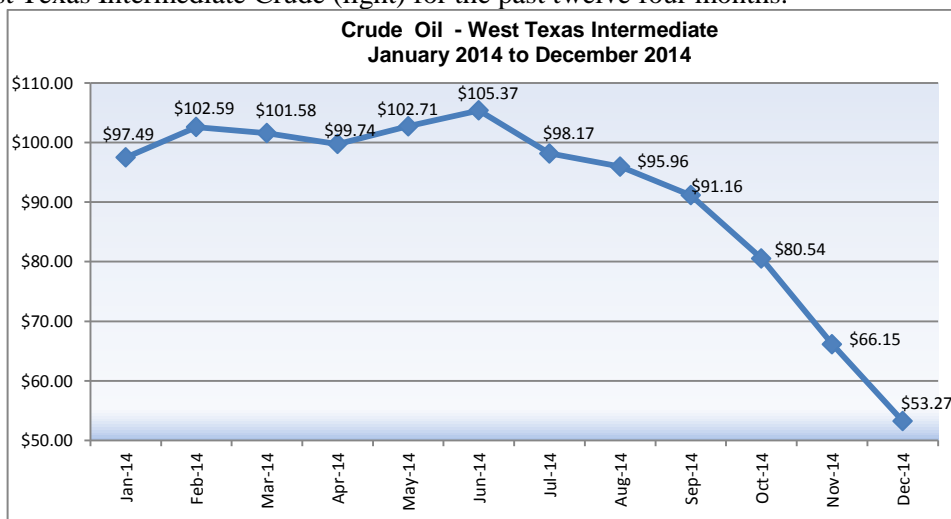
This credit rating is for the City’s investment portfolio and does NOT reflect the credit rating of the City’s bond issues.

On August 11, 2008, the City of Anaheim’s Investment Policy was recognized and certified by the Association of Professional Treasurers of the United States and Canada (APT US&C) as meeting all standards and criteria established by the APT US&C.

**INVESTMENT ENVIRONMENT:**

The month of December 2014 saw a change in the world economies as data suggested that third world countries, particularly China and India, showed a decline in growth. The weakness in the European financial markets along with the rapidly declining price in base commodities, such as crude oil, copper and other industrial materials is concern that future economic growth could be limited and the spectre of deflation pressures for 2015.

The price of crude oil’s benchmark West Texas Intermediate Crude has dropped from \$105.37 per barrel at the end of June 2014 to \$53.27 per barrel at the close of December 31, 2014, a decrease of \$52.10 or nearly 51%. The sharp decrease in price of this key commodity reflects the reduced demand from users coupled with an increase in supplies which could indicate a strong “deflationary” cycle for global economies. The following graph shows the price of the benchmark West Texas Intermediate Crude (light) for the past twelve four months.

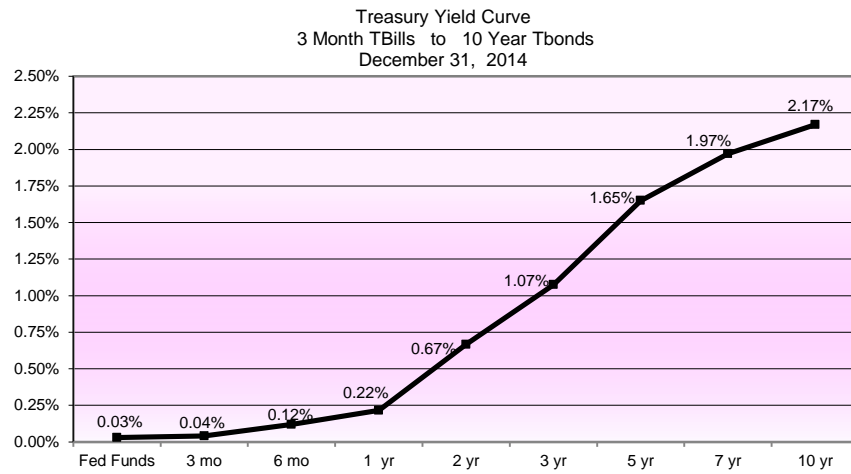


Source: Bloomberg Financial Systems

Interest rates in the financial markets showed an increase in volatility due to year end investing and uncertainty for 2015. The U.S. Treasury three month bill closed December at 0.04%, up from November’s close of 0.01%. The two year U.S. Treasury Note closed the month at 0.67%, up 20 basis points (0.20%) from the prior month’s close of 0.47%, the biggest increase since March 2010. We expect to see continued volatility in the financial markets into the first quarter of 2015.

The Federal Reserve continues to monitor the economic data and at their December 17, 2014 Federal Open Market Committee (FOMC) meeting continues to keep the benchmark Federal Funds rate at 0 to 0.25%. The Federal Funds rate is the interest rate that banks lend to each other to maintain their capital values and positions in compliance with the required reserve requirements. The expectation of the financial markets is for no meaningful change in interest rate until the second quarter of 2015.

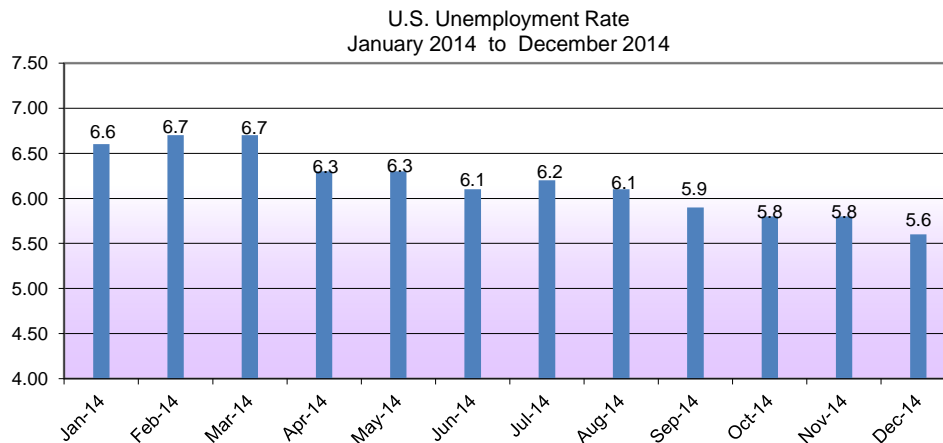
The chart below shows the interest rates for U.S. Treasury issues for the month ending December 2014:



Source: Bloomberg Financial Systems

A key economic indicator watched by investors and the news media is the national unemployment rate, which tends to show the overall health of the national economy. For the month of December 2014, the national unemployment rate was reported at 5.6%, down 0.2% from November 2014. The rate is the lowest since June 2008. The twelve month average is at 6.2%, which is significantly lower from the December 2013 average level of 7.4%.

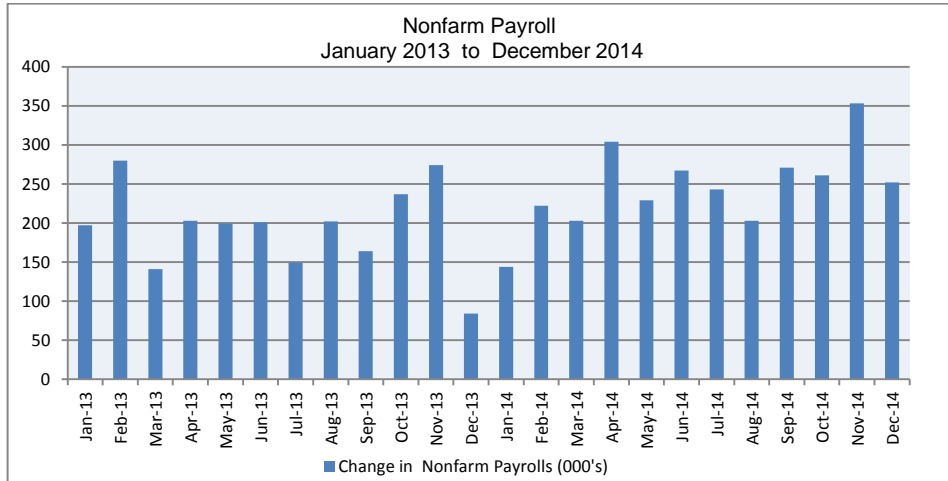
The unemployment rate is considered a “lagging” economic indicator and does not reflect immediate or current financial and economic events. The chart below shows the national unemployment rate for the past twelve months:



Source: U.S. Bureau of Labor Statistics

A more accurate gauge of the employment sector and the improving economy is the amount of jobs being created. The Bureau of Labor Statistics publishes monthly the value of US Employees on nonfarm payrolls, which is an indication of how the corporate or business sector is hiring. For the month of December 2014, the nonfarm payroll number was reported to be 252,000 new jobs created. For comparison, the November 2014 value was revised upward to 353,000 new jobs from the previous reported value of 321,000. The large increases in November and December may be attributed to seasonal employment for the holidays.

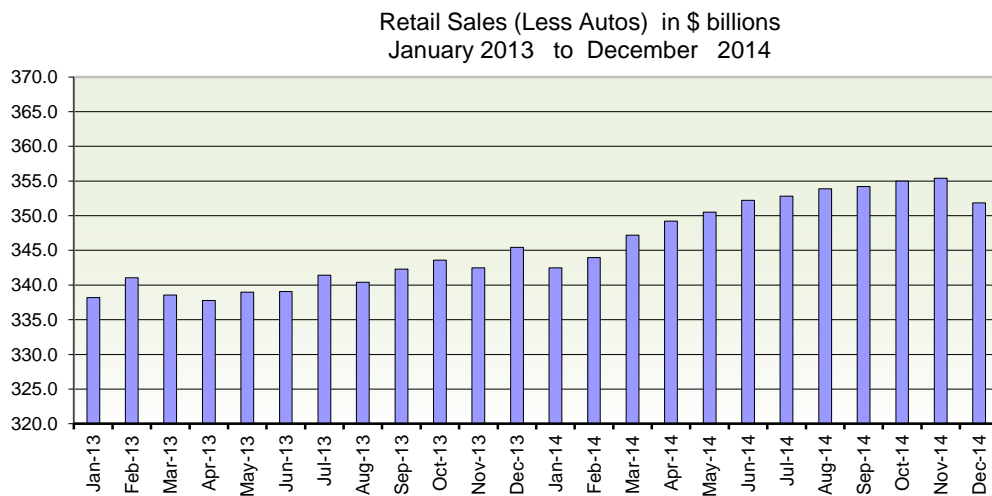
The annual (twelve month average) value with the revised values shows approximately 246,000 monthly new jobs are being created, which is above the minimum value of 165,000 new monthly jobs that economists have said are needed to show sustained economic growth. It should be noted the nonfarm payroll values are subject to seasonal variations and revisions, making an analysis of a distinct trend in this indicator difficult at times. The chart below shows the nonfarm payroll values for the past two years:



Source: U.S. Bureau of Labor Statistics

Another economic factor we watch is the monthly Retail Sales (less Autos), which measures the level of consumer spending and provides an indication of the underlying vitality of the overall national economy. For December 2014, the annualized retail sales value was released at \$351.9 billion, a monthly decrease of \$3.5 billion or minus 0.9% from the November 2014 revised value of \$355.4 billion. The decrease is cause for concern for future growth, since the month of December is a heavy month for retail sales due to the holidays.

The annualized increase, year to year, showed a percentage increase of only 1.9%. The incremental increase shows the economy continues to expand, however, at a potentially slower pace than was earlier predicted. It is estimated that consumer spending accounts for nearly seventy percent of economic activity, so an increase in retail sales can indicate expanding economic activity. The chart below shows the monthly increase in consumer spending for the past twenty four months:



Source: Census Bureau, US Government

**INVESTMENT PERFORMANCE:**

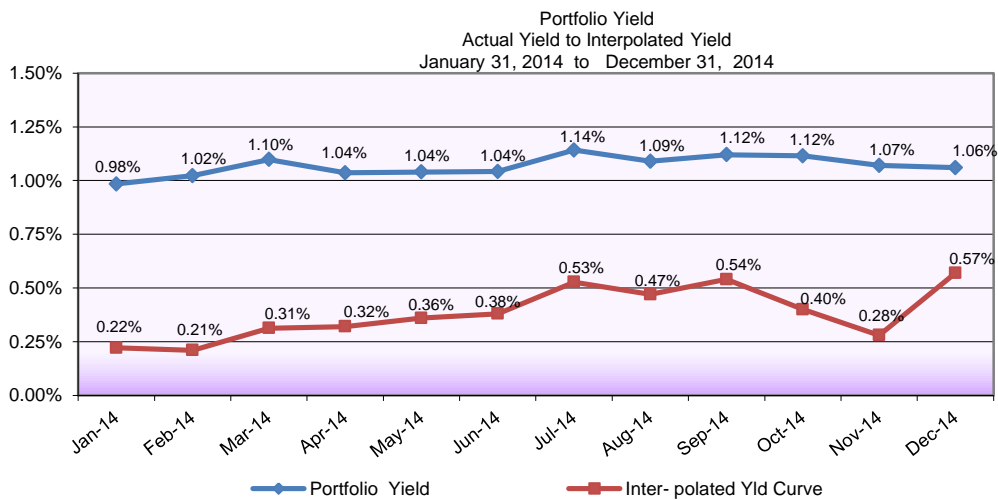
The City’s investment portfolio remains strongly diversified and invested in high credit quality issues of U.S. Treasuries, Federal Agencies, Medium Term Corporate Notes and high grade commercial paper. Investments in money market accounts are restricted to U.S. Treasury and Federal Agencies only and a review of the State of California Local Agency Investment Fund (LAIF) shows high levels of liquidity and safe investments. The City’s investment strategy continues to focus on safety and providing liquidity for the City’s operational requirements.

For December 31, 2014, the City Treasurer’s Investment Portfolio performance was:

	Amount of Funds (Market Value)	Maturity	Effective Yield	Interpolated Yield	Total Return Monthly	Total Return Annual
Short-Term Portfolio	\$ 95,608,216	11 days	0.21 %	0.01 %	0.018	0.237
Long-Term Portfolio	\$ 280,667,666	2.4 years	1.35 %	0.81 %	-0.238	1.198
Total Portfolio	\$ 376,275,882	1.8 years	1.06 %	0.57 %	-0.174	1.053

The portfolio balance includes a deposit for the acquisition funds of the 2011A Electric Bonds of \$1,185,120 as of the December 31, 2014 bond fund report balance. As a credit rated investment portfolio of “AA” by Standard and Poor’s, we are recognized as a permitted investment by the bond indenture of the above bonds. These funds enjoy the advantage of superior market rates of return in a historically low interest rate environment.

Please note the use of interpolated yield values and total return values are guidelines and not used in the performance evaluation of the portfolio. The investment of public funds is exposed to a large range of variable factors, such as increases or decreases in revenues and expenditures as well as seasonal timing, which can affect the cash flow of the City. The City’s investment portfolio continues to provide above market rates of return on funds invested as shown in the following graph which shows the City’s net overall performance to a market indicator for the past twelve months:



Source: Treasurer’s Office, Anaheim

The interpolated yield curve value of 0.57% reflects current market interest rates comparable to the City’s Investment Portfolio average weighted maturity of 1.8 years as of December 31, 2014. As shown, the City’s Investment Portfolio interest earnings were 1.06% for December; approximate dollar earnings for the month of \$153,645 over market interest rates. Cumulative earnings for the City portfolio earnings over market interest rates for the past twelve months are approximately \$2,780,000.

A complete listing of the portfolio holdings and investment activity for the City of Anaheim’s Investment Portfolio for the month of December 2014 is on the following pages.

**IMPACT ON BUDGET:**

There is no budgetary impact. Interest income is allocated in various funds based on the performance of the Investment Portfolio.

Respectfully submitted,

Henry W. Stern, CTP  
City Treasurer

**Attachment**

1. City Treasurer's Investment Report

