

CITY OF SAN LEANDRO

MEMORANDUM

DATE: February 3, 2012

TO: Finance Committee

FROM: Chris Zapata, City Manager

BY: Jim O'Leary, Interim Finance Director
Mary Ann Perini, Budget and Compliance Manager

SUBJECT: Investment Report, Quarter Ended December 31, 2011

RECOMMENDATION

Staff recommends that the Finance Committee review and accept the attached investment report for the quarter ended December 31, 2011.

OVERVIEW

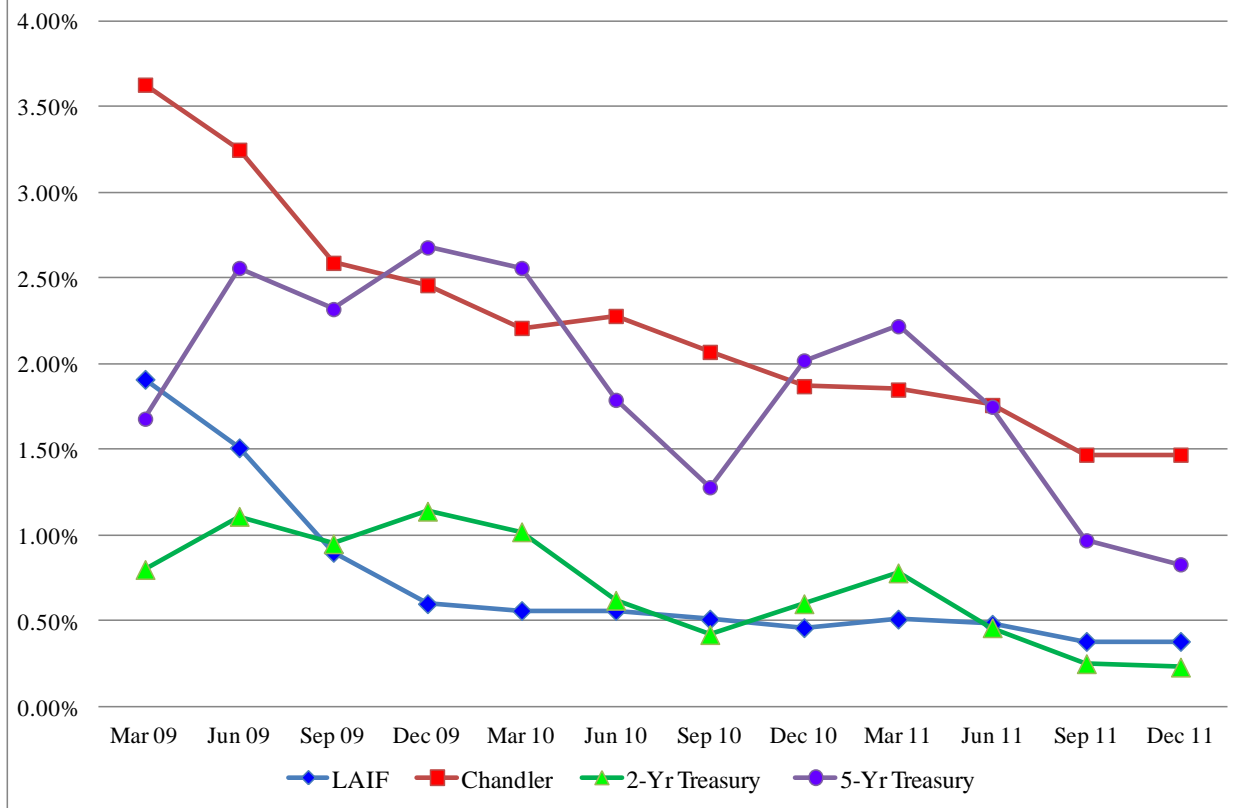
At December 31, 2011, the City's investment portfolio had a market value of \$85 million. Of the total \$85 million, \$56.9 million was placed with the Local Agency Investment Fund (LAIF) and bank accounts and \$28.3 million was placed in the Chandler Asset Management portfolio. The rate of return for LAIF for the quarter was 0.38%, while the average book yield for the Chandler managed funds was 1.47%.

The City's investment policy establishes three bases for the performance standard: the LAIF rate of return and the rate of return on 2-year and 5-year U.S. Treasury securities. Amounts invested in LAIF meet this performance standard. The Chandler managed funds average book yield was 1.47%, which exceeded the benchmark rate of return on the 2-year U.S. Treasury securities of 0.23% and the 5-year U.S. Treasury security benchmark of 0.83%.

Amounts invested with LAIF are essentially liquid and funds can be withdrawn with minimal notice as City operations require. The rate of return earned by LAIF generally follows fixed income security rates. For example, a year ago the LAIF rate was 0.51% and it was 0.38% as of September 30, 2011.

The balance of the City's portfolio is with Chandler Asset Management. These investments range from one to four years in maturity. The attached report notes that the City is in compliance with all provisions of the City's Investment Policy. The basic strategy recommended by Chandler is to gradually lengthen the average maturity of the portfolio in order to gain higher interest rates. Staff is in agreement with this approach, but carefully monitors maturity dates to ensure that both short and long-term liquidity needs are met.

City of San Leandro Summary of Yields



CONCLUSION

Staff recommends that the Finance Committee review and accept the attached investment report for the quarter ended December 31, 2011.



CHANDLER
ASSET
MANAGEMENT



City of San Leandro

City Council Investment Report

Quarter Ending
December 31, 2011



City of San Leandro
December 31, 2011

COMPLIANCE WITH INVESTMENT POLICY

Assets managed by Chandler Asset Management are in full compliance with State law and with the City's investment policy.

Category	Standard	Comment
Treasury Issues	No limitations	Complies
Agency Issues	No limitations	Complies
Banker's Acceptances	40% maximum; 30% per issuer; A-rated; 180-day max. maturity	Complies
Commercial Paper	25% maximum; 10% per issuer; 270-day max. maturity; A1/P1 and AA-rated if LT debt	Complies
Negotiable Certificates of Deposit	30% maximum; 10% per issuer; AA-rated	Complies
Medium Terms Notes	30% maximum; AA-rated	Complies
Money Market Funds	AAA/Aaa rated; assets greater than \$500MM; 20% maximum	Complies
LAIF	Currently not used by adviser	Complies
Maximum Maturity	5 years	Complies

City of San Leandro

The investment goals of the City of San Leandro are to preserve principal, to provide liquidity, and to attain a rate of return commensurate with the City's investment risk constraints and cash flow needs.

Investment Report Performance Objectives

The performance objective for the City of San Leandro's portfolio managed by Chandler is to attain a rate of return greater than the benchmark 1-3 Year Treasury/Agency securities over a market cycle.

Strategy

In order to achieve these objectives, the City of San Leandro invests in US Treasury securities, federal agency securities, high quality money market instruments and high quality corporate medium term notes in accordance with the City's investment policy and California Government Code Section 53600 et seq.



Portfolio Characteristics

	12/31/2011	9/30/2011
LAIF - City Pool #98-01-809	\$37,596,633	\$34,559,465
LAIF - Redevelopment Agency #65-01-005	346,307	374,947
LAIF - RDA 1999 Bond Proceeds #11-01-001	189	188
LAIF - RDA 2008 Bond Proceeds #11-01-038	8,989,267	10,573,733
LAIF - Economic Development Agency	2,960,348	2,957,512
Passbook/Checking Accounts	7,011,808	3,399,353
Total LAIF and Bank Accounts	\$56,904,552	\$51,865,198
Investment Portfolio Market Value	\$28,255,661	\$28,184,662
Total Market Value	\$85,160,213	\$80,049,860
LAIF Quarterly Apportionment Rate	0.38%	0.38%
2 year US Treasury Yield to Maturity	0.23%	0.25%
5 year US Treasury Yield to Maturity	0.83%	0.97%
Investment Portfolio:		
Average Maturity (yrs)	1.56	1.67
Modified Duration	1.51	1.62
Average Book Yield	1.47%	1.47%
Average Yield to Maturity at Market	0.41%	0.51%
Average Quality	AA+	AA+

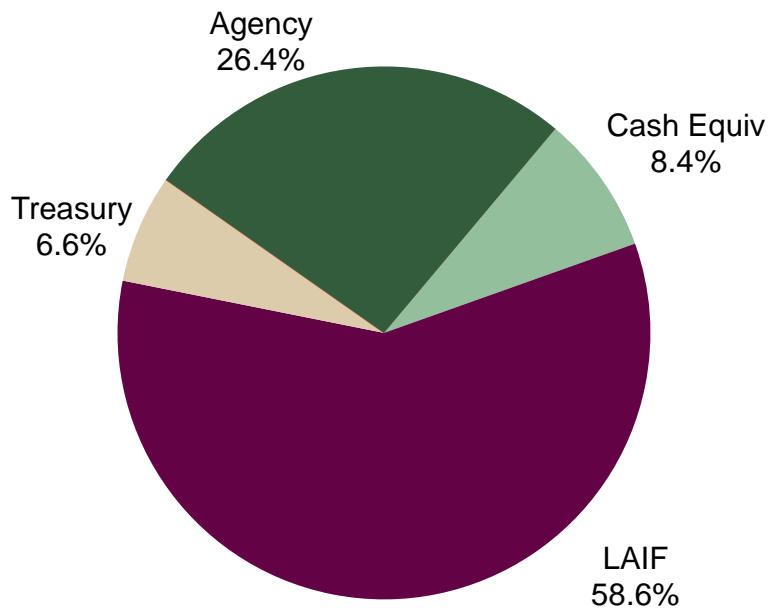
Portfolio Activity

During the fourth quarter of 2011, activity in the portfolio managed by Chandler Asset Management consisted of the purchase of \$914,000 in one Agency security. The portfolio sector allocation was stable with approximately 80% Agencies and 20% Treasuries. The portfolio structure and duration strategy has been directed by the City and has been subordinate to their cash flow needs.

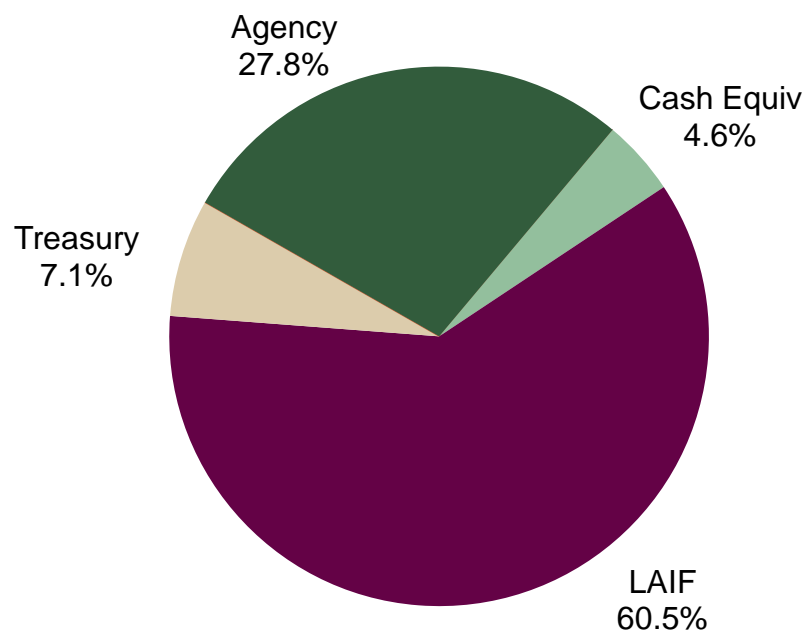


Sector Distribution

December 31, 2011

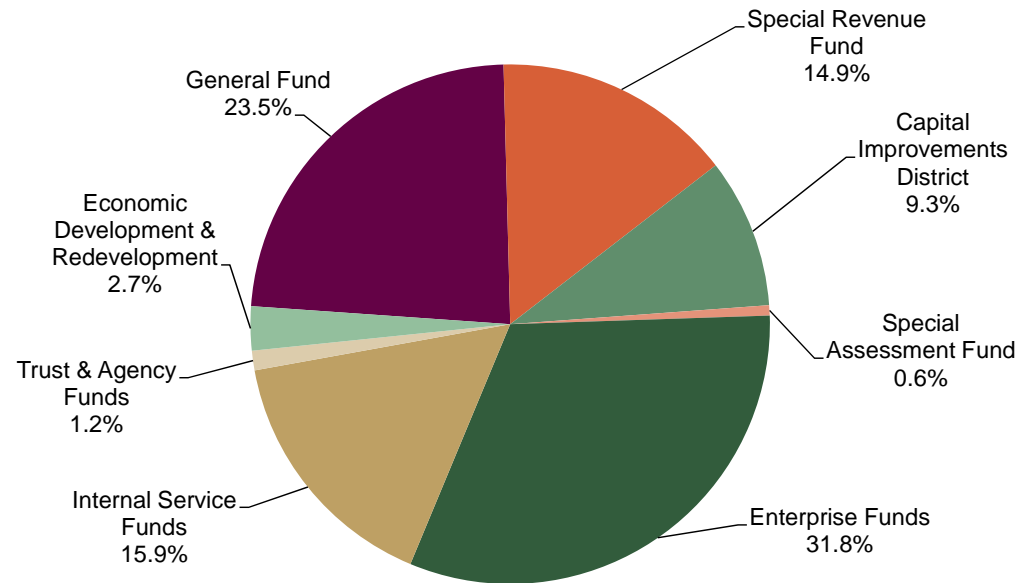


September 30, 2011

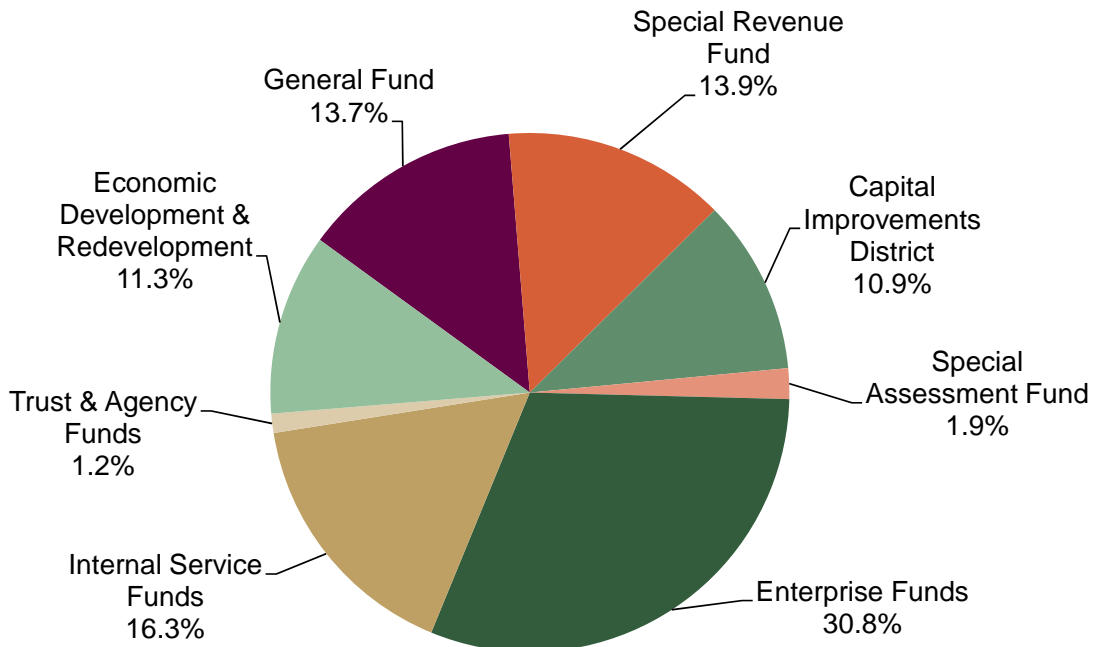


City Fund Allocation

December 31, 2011



September 30, 2011





**City of San Leandro
Investments by All Types
Active Investments
December 31, 2011**

CUSIP	Issuer	Coupon	Maturity Date	Par	Purchase Price	Book Value	Purchase Yield	MVACC
LAIF								
SYS113	LAIF - City Pool			\$37,596,633.00	100.00000	\$37,596,633.00		\$37,596,633.00
SYS114	LAIF - Redevelopment Agency			346,307.00	100.00000	\$346,307.00		\$346,307.00
SYS115	LAIF - RDA 1999 Bond Proceeds			189.00	100.00000	\$189.00		\$189.00
	LAIF - RDA 2008 Bond Proceeds			8,989,267.00	100.00000	\$8,989,267.00		\$8,989,267.00
	LAIF - Economic Development Agency			2,960,348.00	100.00000	\$2,960,348.00		\$2,960,348.00
				subtotal		\$49,892,744.00		\$ 49,892,744.00
Passbook/Checking Accounts								
	Public Funds Checking			7,011,807.68	100.00000	7,011,807.68		7,011,807.68
				subtotal		\$ 7,011,807.68		\$ 7,011,807.68
Government Issues								
431114701	Govt Money Market Fund Highmark			182,003.45	100.00000	182,003.45		182,003.45
31398AUU4	Note FNMA	2.000	01/09/12	1,000,000.00	100.01132	1,000,113.15	1.47	1,009,873.56
31331GKY4	Note FFCB	2.000	01/17/12	750,000.00	100.00944	750,070.81	1.78	757,381.58
31359M5H2	Note FNMA	5.000	02/16/12	925,000.00	100.43229	928,998.66	1.48	947,720.78
3137EABY4	Note FHLMC	2.125	03/23/12	700,000.00	100.14882	701,041.75	1.45	707,181.81
31398AWK4	Note FNMA	1.875	04/20/12	950,000.00	100.07134	950,677.74	1.63	958,550.87
31331GNQ8	Note FFCB	2.250	04/24/12	750,000.00	100.12794	750,959.52	1.83	757,993.13
912828GQ7	Note US Treasury	4.500	04/30/12	1,360,000.00	100.65048	1,368,846.59	2.41	1,390,027.22
3133MNVV0	Note FHLB	5.750	05/15/12	635,000.00	101.54194	644,791.33	1.48	652,790.31
3137EACC1	Note FHLMC	1.750	06/15/12	900,000.00	99.98156	899,834.06	1.79	907,354.60
912828GW4	Note US Treasury	4.875	06/30/12	500,000.00	100.30111	501,505.53	4.20	511,863.96
3134A4QD9	Note FHLMC	5.125	07/15/12	900,000.00	101.74505	915,705.44	1.77	945,547.15
31398AYM8	Note FNMA	1.750	08/10/12	975,000.00	99.94010	974,415.99	1.85	990,819.54
912828HC7	Note US Treasury	4.125	08/31/12	500,000.00	99.95750	499,787.49	4.20	520,152.94
31359MPF4	Note FNMA	4.375	09/15/12	655,000.00	101.82361	666,944.63	1.71	682,529.61
3137EABE8	Note FHLMC	4.125	12/21/12	700,000.00	102.44776	717,134.32	1.54	726,923.98
3137EACG2	Note FHLMC	1.375	01/09/13	675,000.00	99.81909	673,778.85	1.56	687,221.18
31331JBV4	Note FFCB	1.750	02/21/13	750,000.00	101.00394	757,529.52	0.86	766,231.08
3137EACJ6	Note FHLMC	1.625	04/15/13	675,000.00	99.88700	674,237.26	1.71	688,658.33
31331JPK3	Note FFCB	1.375	06/25/13	750,000.00	100.58847	754,413.52	0.97	762,410.38
912828JK7	Note US Treasury	3.125	08/31/13	670,000.00	103.83656	695,704.94	0.79	709,004.55
3133XR88	Note FHLB	4.000	09/06/13	575,000.00	105.32441	605,615.37	0.79	617,030.64
31331GCS6	Note FFCB	3.875	10/07/13	575,000.00	105.22028	605,016.62	0.88	615,295.81
31360CWC2	Pool # 002443 FNMA	12.500	12/01/13	83.96	101.88185	85.54	11.07	90.88
912828KF6	Note US Treasury	1.875	02/28/14	750,000.00	102.01172	765,087.88	0.93	780,298.39
3133XVKV0	Note FHLB	2.375	03/14/14	1,250,000.00	102.62132	1,282,766.51	1.16	1,310,000.03
31398AXJ6	Note FNMA	2.500	05/15/14	750,000.00	102.93414	772,006.07	1.23	785,158.08
912828QM5	Note US Treasury	1.000	05/15/14	975,000.00	100.58595	980,713.04	0.75	992,406.88
912828LK4	Note US Treasury	2.375	08/31/14	670,000.00	103.07308	690,589.66	1.19	711,180.49
31331GL80	Note FFCB	3.000	09/22/14	975,000.00	105.46222	1,028,256.69	0.96	1,045,231.20
3133XVNU1	Note FHLB	2.750	12/12/14	1,000,000.00	103.79517	1,037,951.73	1.42	1,061,869.39
3137EACH0	Note FHLMC	2.875	02/09/15	925,000.00	103.58095	958,123.75	1.68	996,961.56
313370JB5	Note FHLB	1.750	09/11/15	1,225,000.00	102.92387	1,260,817.36	0.94	1,272,056.20
3135G0BA0	Note FNMA	2.375	04/11/16	865,000.00	105.38989	911,622.58	1.08	918,483.63
313373SZ6	Note FHLB	2.125	06/10/16	850,000.00	104.26362	886,240.80	1.14	887,358.00
				subtotal		\$ 27,793,388.15		\$ 28,255,661.19
				Total		\$ 84,697,939.83		\$ 85,160,212.87