

CITY OF SAN LEANDRO

MEMORANDUM

DATE: November 4, 2011

TO: Finance Committee

FROM: Lianne Marshall, Interim City Manager

BY: Jim O'Leary, Interim Finance Director
Carla Rodriguez, Deputy Finance Director

SUBJECT: Investment Report, Quarter Ended September 30, 2011

RECOMMENDATION

Staff recommends that the Finance Committee review and accept the attached investment report for the quarter ended September 30, 2011.

OVERVIEW

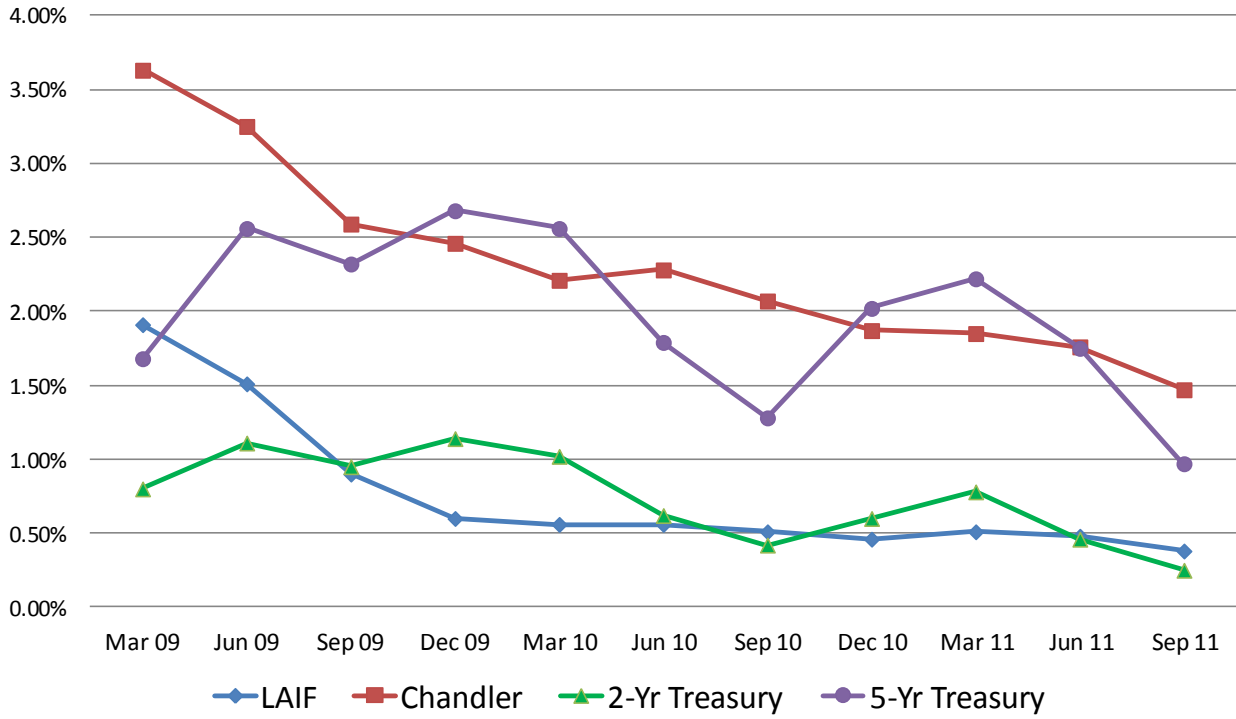
At September 30, 2011, the City's investment portfolio had a market value of \$80 million. Of the total \$80 million, \$51.9 million was placed with the Local Agency Investment Fund (LAIF) and bank accounts and \$28.2 million was placed in the Chandler Asset Management portfolio. The rate of return for 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- and 5-year U.S. Treasury securities. Consequently, amounts invested in LAIF meets this performance standard. The Chandler managed funds average book yield was 1.47%, which exceeded the Investment Policy benchmark rate of return on the two-year U.S. Treasury securities of 0.25% and the five year U.S. Treasury security benchmark of .97%.

Amounts invested with LAIF are essentially liquid and funds can be withdrawn with minimal notice as City operations require.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 September 30, 2011.



CHANDLER
ASSET
MANAGEMENT



City of San Leandro City Council Investment Report

Quarter Ending
September 30, 2011



City of San Leandro
September 30, 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

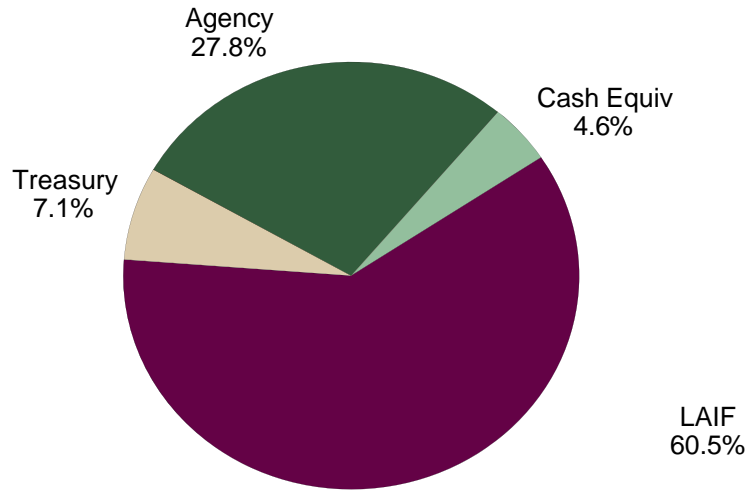
	9/30/2011	6/30/2011
LAIF - City Pool #98-01-809	\$34,559,465	\$41,507,491
LAIF - Redevelopment Agency #65-01-005	374,947	374,497
LAIF - RDA 1999 Bond Proceeds #11-01-001	188	188
LAIF - RDA 2008 Bond Proceeds #11-01-038	10,573,733	11,184,400
LAIF - Economic Development Agency	2,957,512	2,955,022
Passbook/Checking Accounts	3,399,353	7,959,957
Total LAIF and Bank Accounts	\$51,865,198	\$63,981,555
Investment Portfolio Market Value	\$28,184,662	\$28,067,212
Total Market Value	\$80,049,860	\$92,048,767
LAIF Quarterly Apportionment Rate	0.38%	0.48%
2 year US Treasury Yield to Maturity	0.25%	0.46%
5 year US Treasury Yield to Maturity	0.97%	1.75%
Investment Portfolio:		
Average Maturity (yrs)	1.67	1.48
Modified Duration	1.62	1.43
Average Book Yield	1.47%	1.76%
Average Yield to Maturity at Market	0.51%	0.48%
Average Quality	AA+	AAA

Portfolio Activity

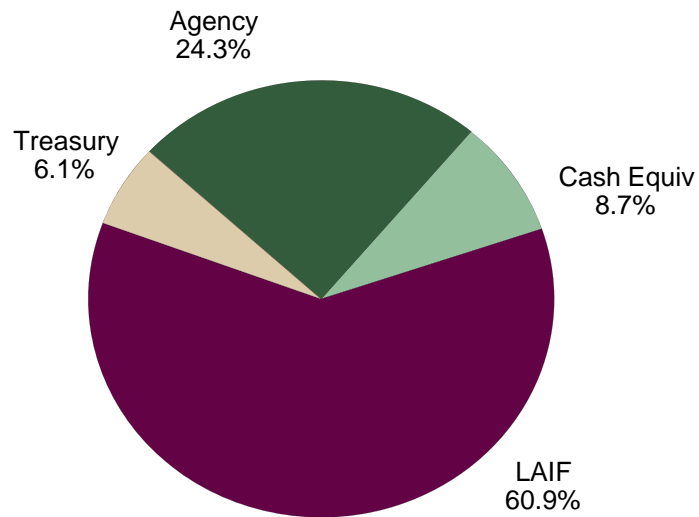
During the third quarter of 2011, activity in the portfolio managed by Chandler Asset Management consisted of the purchase of \$3.19 million in Agency securities. The portfolio sector allocation was approximately 79% Agencies and 20% Treasuries. The portfolio structure and duration strategy has been directed by the City and has been subordinate to their cash flow needs.

Sector Distribution

September 30, 2011



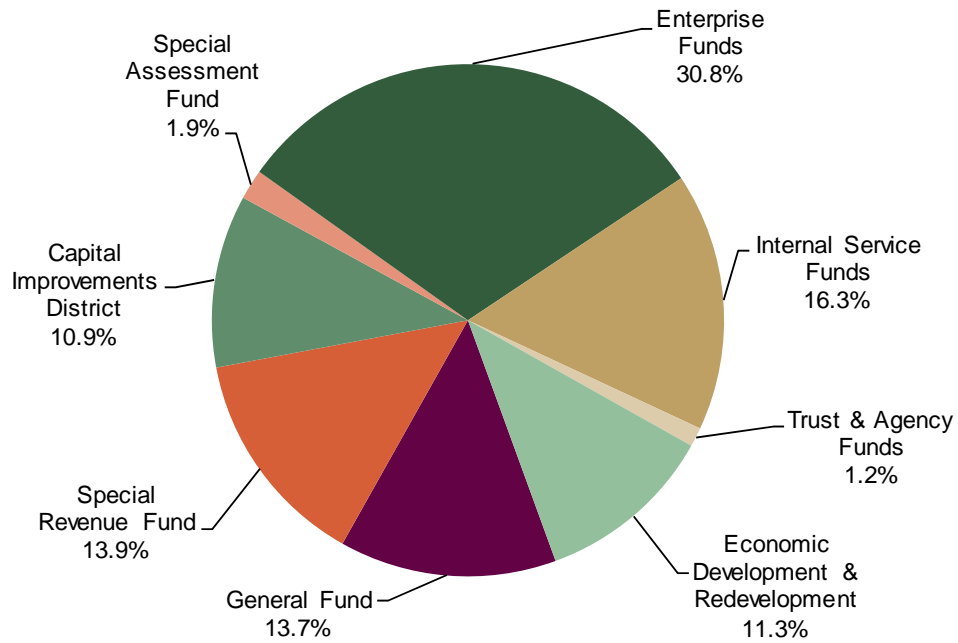
June 30, 2011



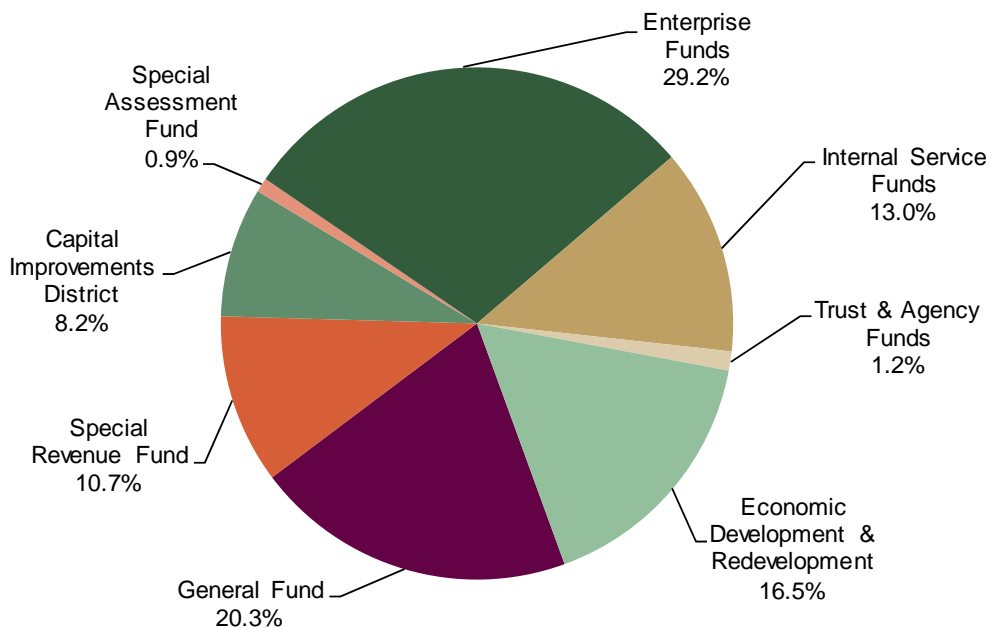


City Fund Allocation

September 30, 2011



June 30, 2011





**City of San Leandro
Investments by All Types
Active Investments
September 30, 2011**

CUSIP	Issuer	Coupon	Maturity Date	Par	Purchase Price	Book Value	Purchase Yield	MVACC
LAIF								
SYS113	LAIF - City Pool			\$34,559,465.00	100.00000	\$34,559,465.00		\$34,559,465.00
SYS114	LAIF - Redevelopment Agency			374,947.12	100.00000	\$374,947.12		\$374,947.12
SYS115	LAIF - RDA 1999 Bond Proceeds			188.46	100.00000	\$188.46		\$188.46
	LAIF - RDA 2008 Bond Proceeds			10,573,732.50	100.00000	\$10,573,732.50		\$10,573,732.50
	LAIF - Economic Development Agency			2,957,512.47	100.00000	\$2,957,512.47		\$2,957,512.47
				subtotal		\$48,465,845.55		\$ 48,465,845.55
Passbook/Checking Accounts								
	Public Funds Checking			3,399,352.54	100.00000	3,399,352.54		3,399,352.54
				subtotal		\$ 3,399,352.54		\$ 3,399,352.54
Government Issues								
431114701	Govt Money Market Fund Highmark			248,027.72	100.00000	248,027.72		248,027.72
31331Y3P3	Note FFCB	3.500	10/03/11	675,000.00	100.01295	675,087.40	1.10	686,681.25
31398AUU4	Note FNMA	2.000	01/09/12	1,000,000.00	100.14144	1,001,414.35	1.47	1,009,592.56
31331GKY4	Note FFCB	2.000	01/17/12	750,000.00	100.06373	750,477.97	1.78	757,176.08
31359M5H2	Note FNMA	5.000	02/16/12	925,000.00	101.29686	936,995.97	1.48	947,343.38
3137EABY4	Note FHLMC	2.125	03/23/12	700,000.00	100.31579	702,210.54	1.45	706,671.16
31398AWK4	Note FNMA	1.875	04/20/12	950,000.00	100.13101	951,244.57	1.63	966,436.35
31331GNQ8	Note FFCB	2.250	04/24/12	750,000.00	100.23118	751,733.86	1.83	765,595.88
912828GQ7	Note US Treasury	4.500	04/30/12	1,360,000.00	101.14919	1,375,628.98	2.41	1,419,769.99
3133MNVV0	Note FHLB	5.750	05/15/12	635,000.00	102.59275	651,463.94	1.48	670,278.84
3137EACC1	Note FHLMC	1.750	06/15/12	900,000.00	99.97134	899,742.10	1.79	914,008.30
912828GW4	Note US Treasury	4.875	06/30/12	500,000.00	100.45415	502,270.77	4.20	523,601.49
3134A4QD9	Note FHLMC	5.125	07/15/12	900,000.00	102.56415	923,077.38	1.77	944,593.60
31398AYM8	Note FNMA	1.750	08/10/12	975,000.00	99.91528	974,173.97	1.85	989,615.42
912828HC7	Note US Treasury	4.125	08/31/12	500,000.00	99.94141	499,707.03	4.20	519,686.02
31359MPF4	Note FNMA	4.375	09/15/12	655,000.00	102.47389	671,203.96	1.71	681,667.96
3137EABE8	Note FHLMC	4.125	12/21/12	700,000.00	103.08211	721,574.76	1.54	740,057.03
3137EACG2	Note FHLMC	1.375	01/09/13	675,000.00	99.77459	673,478.47	1.56	686,030.81
31331JBV4	Note FFCB	1.750	02/21/13	750,000.00	101.22543	759,190.70	0.86	764,520.33
3137EACJ6	Note FHLMC	1.625	04/15/13	675,000.00	99.86488	674,087.96	1.71	693,042.11
31331JPK3	Note FFCB	1.375	06/25/13	750,000.00	100.68854	755,164.06	0.97	766,055.75
912828JK7	Note US Treasury	3.125	08/31/13	670,000.00	104.41709	699,594.50	0.79	707,978.55
3133XRX88	Note FHLB	4.000	09/06/13	575,000.00	106.12221	610,202.68	0.79	615,435.02
31331GCS6	Note FFCB	3.875	10/07/13	575,000.00	105.96488	609,298.06	0.88	625,213.12
31360CWC2	Pool # 002443 FNMA	12.500	12/01/13	104.74	102.13863	106.98	11.07	112.22
912828KF6	Note US Treasury	1.875	02/28/14	750,000.00	102.24629	766,847.18	0.93	778,151.13
3133XWKV0	Note FHLB	2.375	03/14/14	1,250,000.00	102.92165	1,286,520.59	1.16	1,306,845.66
31398AXJ6	Note FNMA	2.500	05/15/14	750,000.00	103.24621	774,346.60	1.23	793,481.58
912828QM5	Note US Treasury	1.000	05/15/14	975,000.00	100.64827	981,320.68	0.75	993,843.99
912828LK4	Note US Treasury	2.375	08/31/14	670,000.00	103.36365	692,536.48	1.19	708,990.43
31331GL80	Note FFCB	3.000	09/22/14	975,000.00	105.96727	1,033,180.93	0.96	1,042,549.95
3133XVNU1	Note FHLB	2.750	12/12/14	1,000,000.00	104.11967	1,041,196.67	1.42	1,070,816.39
3137EACH0	Note FHLMC	2.875	02/09/15	925,000.00	103.87121	960,808.67	1.68	992,746.80
313370JB5	Note FHLB	1.750	09/11/15	1,225,000.00	103.12327	1,263,260.06	0.94	1,262,866.24
313373SZ6	Note FHLB	2.125	06/10/16	850,000.00	104.50546	888,296.38	1.14	885,178.88
				subtotal		\$ 27,705,472.92		\$ 28,184,661.99
				Total		\$ 79,570,671.01		\$ 80,049,860.08