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Staff Report for Acceptance of the City of San Leandro's Investment Report for the Quarter Ended December 31, 2012

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council review and accept the attached investment report for the quarter ended December 31, 2012.

BACKGROUND

At December 31, 2012, the City's investment portfolio had a market value of \$74.5 million. Of this total, \$41.0 million was placed with the Local Agency Investment Fund (LAIF) and bank accounts and \$33.5 million was placed in the Chandler Asset Management portfolio. On January 31, 2012 the Redevelopment Agency LAIF accounts were closed as a result of the dissolution of the San Leandro Redevelopment Agency. These funds were transferred to the City's Economic Development Agency LAIF account in the amount of \$9.3 million. Subsequently, the Economic Development Agency LAIF account has been transferred to a new Successor Agency LAIF account established during the quarter ended June 30, 2012. The balance in this new account is \$5.9 million and has decreased since January due to debt repayments.

During September, 2012 staff transferred \$4.9 million out of LAIF to be reinvested by Chandler in securities with a greater yield. Eleven securities were purchased with half of these operating a business in the City of San Leandro (Wells Fargo Bank, Coca-Cola, JP Morgan Chase, John Deere, US Bancorp). The remaining six securities are with IBM, Pepsico, HSBC USA, Ebay, General Electric and Microsoft. The average yield of this reinvestment is 0.55% which exceeds the LAIF average book yield, and the average maturity is less than two years.

The rate of return for LAIF for the quarter was 0.32%, while the average book yield for the Chandler managed funds was 0.78%. 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 0.78%, which exceeds both the benchmark rate of return on the 2-year U.S. Treasury securities of 0.25% and the 5-year U.S. Treasury security benchmark of 0.72%.

Amounts invested with LAIF are essentially liquid; funds can be withdrawn with minimal notice as City operations require. The rate of return earned by LAIF generally follows fixed income security rates.

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.

ATTACHMENTS

- Chandler Asset Management City Council Investment Report for Quarter Ending December 31, 2012

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