



# **City of Huntington Beach Treasurer's Investment Report**

*Period Ending: March 31, 2013*

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## **Economic and Market Overview:**

Housing remained a bright spot in the U.S. economy. During the first quarter of 2013, home prices and mortgage applications rose slightly as of the end of March. Energy prices moderated during this period as well. However, consumer confidence still waivered and remained at levels consistent with a mild recession while the employment picture remained troubling. The U.S. financial system continued to be sensitive to European economic difficulties.

The Dow Jones Industrial Average (DJIA) and S&P 500 ended 1Q 2013 at all-time highs. Year-to-date as of 3/31/13, the DJIA was up 11.3%, its best quarter in 15 years. The S&P was up 10% for the year. The 10-year Treasury yield waivered through the first quarter of 2013, moving lower in the last week of March due to concerns of financial stability in Europe. The 10-year Treasury ended the first quarter at 1.85%, a bit higher than as of December 2012.

While there was a slight upward trend in payrolls for January and February 2013, the below consensus 88K rise in payrolls in March was disappointing. Weakness in manufacturing and services continued. However, the unemployment rate did fall one tenth to 7.6% in March, 2013.

## **Portfolio Overview:**

*As of March 31, 2013:*

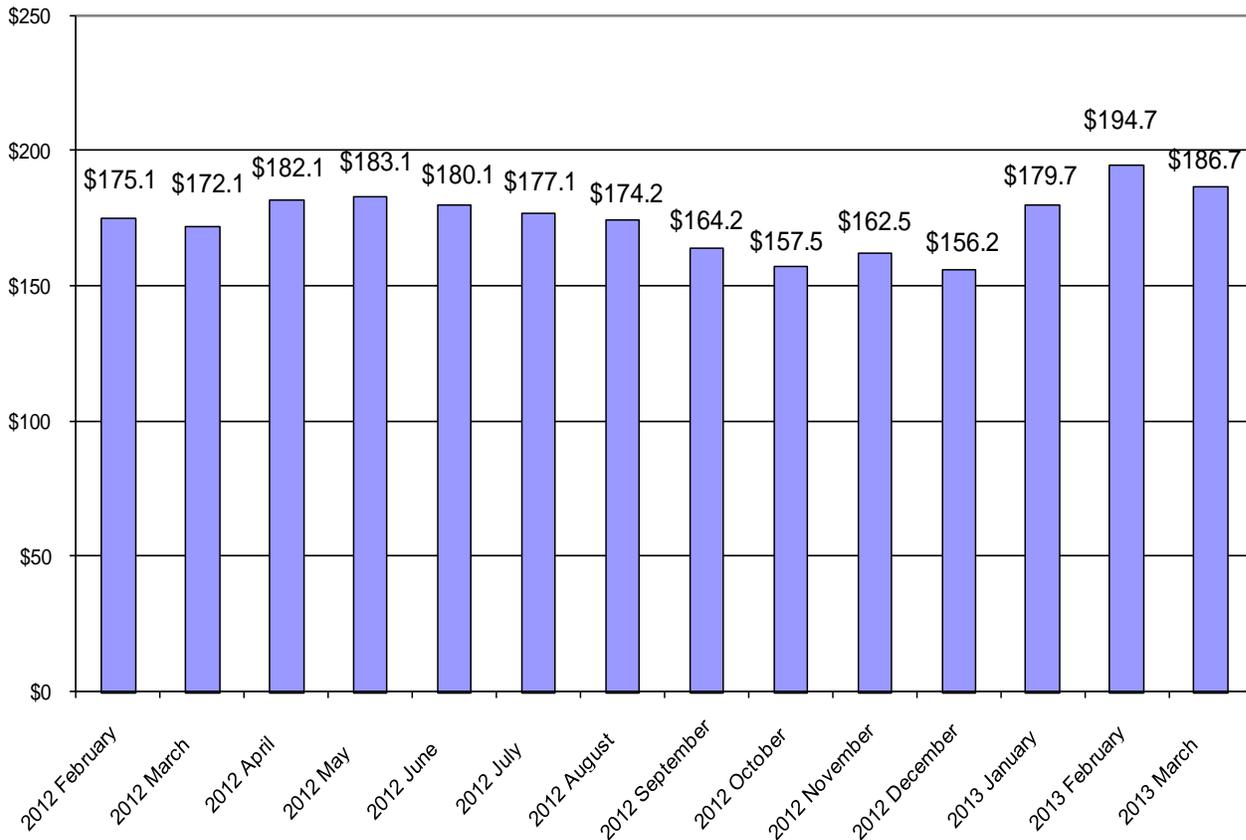
<u>Investment Type</u>	<u>Market Value</u>	<u>Book Value</u>	<u>% of Portfolio</u>	<u>YTM 365-day</u>	<u>Policy Limit</u>
Certificates of Deposit	250,000	250,000	0.1%	0.61%	30%
Federal Agency Issues	128,180,530	127,983,409	69%	0.94%	None
Local Agency Investment Fund (LAIF)	38,147,960	38,147,960	20%	0.29%	\$50 million
Corporate Bonds	20,364,569	20,296,596	11%	0.80%	20%
<b>Totals</b>	<b>186,943,059</b>	<b>186,677,965</b>	<b>100%</b>	<b>0.79%</b>	

As of March 31, 2013, the market value of the investment portfolio was \$186.9 million, with a book value of \$186.7 million. Additionally, there was a balance of approximately \$16.6 million on March 28, 2013, in the City's bank account for near-term operational availability. The portfolio is invested in only those investments allowable by State regulations and the City's Investment Policy. Such investments are purchased to meet the portfolio objectives of preservation of principal, maintenance of sufficient operating liquidity, and to attain a market rate of return throughout budgetary and economic cycles, in that order of absolute priority.

Currently, City funds are invested in Certificates of Deposit, Federal Agency Securities, Corporate Notes and the State of California's Local Agency Investment Fund (LAIF). The four federal government sponsored entities (agencies) that the City purchases the securities of are: Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC/Freddie Mac), Federal National Mortgage Association (FNMA/Fannie Mae) and Federal Farm Credit Bank (FFCB/Farm Credit). Corporate notes are obligations of corporations. All corporate notes are "A" rated or its equivalent or better, per the City's Investment Policy. LAIF offers local agencies the opportunity to participate in a major portfolio with overnight liquidity managed by

the State of California Treasurer’s Office (please see <http://www.treasurer.ca.gov/pmia-laif> for more information). LAIF has been utilized for the City’s liquidity portfolio as the yield received far surpasses that of similarly liquid investments at this time, including money market accounts, short-term Treasury Bills, and commercial paper.

**Book Value History**  
**\$ in Millions**



The book value of the portfolio as of March 31, 2013 remains within historical norms. The balance fluctuates with the seasonal and budgetary operational needs of the City.

## Portfolio Earnings and Performance:

<b>Monthly Earnings</b>	<b>\$108,343</b>
Interest	\$123,150
Adj. Premiums/Discounts	\$14,807
Capital Gains:	\$0
<b>Monthly Budgeted Interest Income</b>	<b>\$112,000</b>
<b>Monthly Effective Rate of Return</b>	<b>0.68%</b>
<b>Fiscal YTD Earnings</b>	<b>\$692,311</b>
<b>Fiscal YTD Budget</b>	<b>\$672,000</b>
<b>Fiscal YTD Effective Rate of Return</b>	<b>0.80%</b>
<b>Benchmark (1)</b>	<b>0.28%</b>
<b>Bank Cash Balance at 3/28/13</b>	<b>\$16.6MM</b>

(1) Benchmark: The average of the monthly LAIF rate and the 12-month rolling average 2-year Constant Maturity Treasury (CMT) rate, per Investment Policy Statement.

Monthly investment earnings for March 31, 2013, were \$108,343. The monthly effective rate of return of 0.68% decreased from 0.88% for the month of December 2012. For the fiscal year 2012-13, as of March 31, 2013, the effective rate of return was 0.80%, down from 0.90% for the previous fiscal quarter.

The portfolio yield overall continues to decline as expected, due to the historically low interest rates. Higher yielding bonds that mature or are “called” are causing retired funds to be invested in the current low interest rate environment. Certain securities have “call” options, which means the issuer may return the funds to the purchaser at a specified time. It is anticipated that the portfolio yield will remain at these low levels and that it will take some time for portfolio yields to increase, even as interest rates begin to move upward, as existing securities will continue to remain in the portfolio until maturity, unless they are sold.

## Portfolio Activity:

**Quarterly Activity:** For the quarter ending March 31, 2013, federal agency redemptions (matured or called) totaled \$25MM and corporate note redemptions totaled \$1.5MM. Total purchases for the quarter included \$35MM in federal agency securities and \$2MM in corporate notes. There was a net increase in LAIF of \$20.02MM for the quarter, as funds from taxes and security redemptions have been retained for future liquidity needs.

**Monthly Activity:** For the month of March 2013, a total of \$3MM in federal agency securities matured or were called and no corporate notes matured. All of the corporate notes previously held (that were part of an FDIC-backed program), matured during the calendar year 2012. These bonds had yields at around 2%. Unfortunately, due in part to their expiration, we have seen a decrease in the return of the portfolio overall. Purchases for the month included \$5MM in federal agency securities and no corporate notes.

**Compliance:**

The portfolio is in conformity with all relevant State regulations and the city's Investment Policy statement filed with the City Council on November 5, 2012. A copy of this policy is available at the office of the City Clerk. The investment program herein shown provides sufficient cash flow liquidity to meet the next six months' obligations.

**Additional Information:**

**Retirement Plan Information as of December 31, 2012:**

(Due to the delay in statement receipt, information is from previous quarter.)

<b>City of Huntington Beach - Pension/Trust Plans - Market Value Summary</b>							
<b>Deferred Compensation Plan Summary Information</b>							
<i>as of December 31, 2012</i>							
	Beginning Balance (10-1-12)	Contributions	Distributions/ Transfers	Earnings (change in value) Gain/Loss/ Interest	Other Fees/ Adjustments	Ending Balance (12-31-12)	
<i>Reporting is Quarterly</i>							
<b>ICMA Retirement Corporation (457 Plan)</b>	\$32,733,670	\$672,092	(\$856,738)	\$316,762	(\$2,780)	\$32,863,006	
<b>Nationwide Retirement Solutions (457 Plan)</b>	\$60,997,128	\$1,313,917	(\$1,166,179)	\$799,486	(\$700)	\$61,943,652	
<b>Total Deferred Compensation Plan Balances</b>	<b>\$93,730,798</b>	<b>\$1,986,009</b>	<b>(\$2,022,917)</b>	<b>\$1,116,248</b>	<b>(\$3,480)</b>	<b>\$94,806,658</b>	
<b>City of Huntington Beach</b>							
<b>Retiree Medical Trust Summary Information</b>							
<i>as of December 31, 2012</i>							
	Beginning Balance (10-1-12)	Contributions	Distributions/ Transfers	Earnings (change in value)	Other Fees/ Adjustments	Ending Balance (12-31-12)	
<i>Reporting is Quarterly</i>							
<b>CalPERS Retiree Medical Trust Account</b>	\$10,894,037	\$482,285	\$0	\$206,048	(\$4,270)	\$11,578,100	
<b>City of Huntington Beach</b>							
<b>Supplemental Pension Trust Summary Information (monthly reporting, not quarterly)</b>							
<i>as of December 31, 2012</i>							
	Beginning Balance (12-1-12)	Employer Contributions	Interest & Dividends	Realized Gain / Loss	Change in Unrealized Gains / Losses	Other Trust Fees/ Adjustments	Ending Balance (12-31-12)
<i>Reporting is Monthly</i>							
<b>Supplemental Pension Trust Account</b>	\$33,582,131	\$0	\$249,002	\$561,778	(\$386,039)	(\$5,023)	\$34,001,849

## Bond Reserve Accounts - Balances as of March 31, 2013:

<b>Summary of Investments by Bond Issue</b>	
<b>As of March 31, 2013</b>	
	<b>Value as of</b>
<b>Bond Issue</b>	<b>March 31, 2013</b>
City of Huntington Beach - 2004 Judgment Obligation Bonds (Property Tax Refunds)	1,159
Huntington Beach Public Financing Authority Lease Refunding Bonds 2010 Series A	1,242,795
Huntington Beach Public Financing Authority Lease Revenue Refunding Bonds 2011 Series A	3,083,533
Redevelopment Agency of Huntington Beach - 1999 Tax Allocation Refunding Bonds (1/3 of 1992)	753,067
Redevelopment Agency of Huntington Beach - 2002 Tax Allocation Refunding Bonds (2/3 of 1992)	1,673,420
Huntington Beach Community Facilities District No. 1990-1 (Goldenwest-Ellis)	172,694
Huntington Beach Community Facilities District No. 2000-1 (Grand Coast-Hyatt)	1,248,163
Huntington Beach Community Facilities District No. 2002-1 (McDonnell Centre Business Park)	499,616
Huntington Beach Community Facilities District No. 2003-1 (Huntington Center - Bella Terra)	1,816,571
	<b>10,491,018</b>