

Committee Meeting of
April 9, 2013

MATERIAL AVAILABLE MONDAY

Honorable Chair and Members
of the Finance and Governmental Operations Committee
City Hall,
Torrance, California

Members of the Committee

SUBJECT: Investments

The attached Investment Summary by the City Treasurer was not available at the time the 2nd Quarter 2012-13 Budget Review Report was printed.

This was listed as Material Available Monday, under the *Investments* tab.

Respectfully submitted,



Eric E. Tsao
Finance Director

Honorable Chair and Members
of the Finance & Governmental Operations Committee
City Hall
Torrance, California

The Treasurer's Office and the Investment Advisory Committee have set out to develop and implement investment procedures that ensure the City's investment objectives of a high degree of asset safety and adequate liquidity to meet operating and capital expenditure needs, and a reasonable return of the City's investment assets given the City's foremost goals of safety and liquidity.

Investment Summary

As of December 31, 2012 total investments of \$315.4 million consisted of the following categories:

1) Pooled Funds (Investment Portfolio)	\$ 143.4 million
2) Restricted Funds:	
A. Debt issue proceeds	\$ 9.5 million
B. Deferred Compensation	
a) 457	\$ 143.1 million
b) 401(a)	\$ 8.5 million
C. Retirement Health Savings Plan	\$ 3.2 million
D. Public Agency Retirement Services (PARS)	\$ 7.7 million

The Pooled Funds consist of surplus funds invested and managed directly by the City Treasurer. The funds have generated year-to-date interest earnings of \$979 thousand and the effective rate of return equaled 1.32%.

The restricted funds, made up of the Debt issue proceeds, Deferred Compensation funds, Retirement Health Savings Plan and PARS are invested accordingly:

- 1) Debt issue proceeds are invested through a trustee appointed under the Debt Trust Indenture. The funds are invested at the direction of the City Treasurer.
- 2) Deferred Compensation fund is managed by a third party administrator – Great West Life. Investment options made available to the participants are selected and approved by the Deferred Compensation Committee. The fund is a self-directed program. Participants have the ability to direct their contributions among numerous investment options.

- 3) The Retirement Health Savings Plan is managed by a third party administrator – ICMA Retirement. Investment Options are made available to the participants and are selected by ICMA Retirement. Participants can direct their contributions among numerous investment options. This tax-deferred program has been offered to employees for the purpose of saving dollars to supplement the cost of health expenses upon retirement.
- 4) The PARS Plan is an enhanced benefit plan managed by a third party administrator – Public Agency Retirement Services and held in Trust through Union Bank. The investment Option is chosen by the City Treasurer as the Plan Administrator. However, the City Treasurer works in conjunction with the two employee associations (TPSA and Engineers) that negotiated this benefit for their membership. This tax-deferred program has been negotiated with TPSA and Engineers for the purpose of enhancing their retirement benefit.

NOTE: The Deferred Compensation Plans, Retirement Health Savings Plan and PARS are held in a custodial account for the benefit of the Participants or their Beneficiaries and are not an asset of the City of Torrance.

Investment Forecast

The Federal Open Market Committee, the committee will maintain the target for the federal funds rate at 0 to .25 percent well into 2014. Chairman Bernanke has expressed concerns that employment has not improved as expected and thus FOMC will continue to artificially keep rates low as long as inflation does not appear to be a concern. At the end 2012 GDP was reduced downward and although US elections had been resolved much discussion was on the forefront on the Fiscal Cliff and Sequestration.

How does this affect our Investment Portfolio? It means that current and future purchases will be invested in these low interest rates and thus reducing our future interest earnings.

GASB 31 Impacts on Investments

GASB 31 took effect June 1997. The intent of GASB 31 is to bring to light potential liquidity problems by requiring municipalities to denote to market their securities with a maturity greater than one year. This paper gain or loss must be booked against investment earnings at year-end.

One way to avoid the gain/loss issue is to limit all purchases to maturities of less than one year. This condition would then preclude a market valuation and allow investments to be carried on a book value basis. This situation could reduce earnings potential in the loss of yield that a security with a longer term would usually offer.

Within our investment policy we adhere to a buy and hold philosophy. Therefore, our current strategy will not change in light of GASB 31. We will continue to place a percentage of the portfolio out longer on the yield curve to take advantage of higher earnings. At the same time we keep in excess of 20% of the portfolio liquid in order to meet current and future obligations.

At the present time the monthly investment report tracks all securities by listing the face value, book value and market value. The portfolio paper gain or loss is the difference between book and market value. The unrealized gain/loss is noted monthly even though it is not physically applied to earnings until year-end.

Investment Strategy

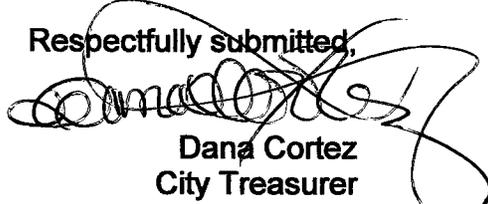
Strategically, we will continue to place money out in the market. Although the market would encourage a longer portfolio, it is not our intent to change our objectives of matching purchases with cash flow needs. We will continue to place investments out on the yield curve to take advantage of a higher rate of return with funds that are not needed on the short term.

To be consistent with the City's objectives of high degree of asset safety, all investments will be invested in high quality rated instruments or those guaranteed by the "full faith and credit" of the government.

Recommendation

Accept and file the 2nd Quarter Report.

Respectfully submitted,



Dana Cortez
City Treasurer

NOTED:



LeRoy W. Jackson
Investment Committee Member