



# Staff Report

## City of Manhattan Beach

**TO:** Members of the Finance Subcommittee

**THROUGH:** Bruce Moe, Finance Director

**FROM:** Henry Mitzner, Controller  
Eden Serina, Financial Analyst

**DATE:** September 27, 2012

**SUBJECT:** Investment Portfolio for August 2012

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**RECOMMENDATION:**

Staff recommends that the Finance Subcommittee accepts a status report on the City's investment portfolio as of August 31, 2012.

**FISCAL IMPLICATION:**

There are no fiscal implications associated with the recommended action. As of August 31, 2012, the City's investment portfolio totaled \$64.1 million (book value).

**DISCUSSION:**

Since the last update of the May 2012 portfolio, the City's investment portfolio has decreased \$6.0 million in book value due to a \$14.5 million decrease in investment in the Local Agency Investment Fund (LAIF) to account for investment purchases and normal operating activities (warrant and payroll coverage, etc.), and offset by a \$8.5 million net change in investments.

**Activity**

Redemptions in the June 1 – August 31, 2012 timeframe are as follows:

Security	Coupon	Call Date	Maturity Date	Amount	YTM
Federal Home Loan Mortgage Corp (Callable)	2.050%	7/27/2012	7/27/2016	\$3,000,000	2.050%
<b>Total Matured/Called (Jun 1 - Aug 31)</b>				<b>\$3,000,000</b>	<b>2.050%</b>

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Purchases in the June 1 – August 31, 2012 timeframe are as follows:

Security	Coupon	Purchase Date	Maturity Date	Amount	YTM
Federal National Mortgage Association (Callable)	0.550%	6/11/2012	12/4/2014	\$1,000,000	0.499%
Corporate: Commonwealth Bank (Non-Callable)	1.950%	6/13/2012	3/16/2015	1,000,000	1.750%
Federal Farm Credit Bank (Callable)	0.875%	6/14/2012	6/14/2016	2,000,000	0.875%
Federal National Mortgage Association (Callable)	0.700%	6/18/2012	9/18/2015	2,000,000	0.700%
Federal Home Loan Bank (Callable)	1.000%	7/3/2012	1/3/2017	2,000,000	1.000%
Corporate: Wells Fargo (Non-Callable)	1.250%	7/20/2012	2/13/2015	1,000,000	1.112%
Corporate: Berkshire Hathaway (Non-Callable)	1.900%	7/20/2012	1/31/2017	1,000,000	1.030%
Certificate of Deposit (Non-Callable)	1.000%	7/24/2012	7/24/2015	245,000	1.000%
Certificate of Deposit (Non-Callable)	1.100%	7/27/2012	7/27/2017	245,000	1.100%
Certificate of Deposit (Non-Callable)	1.100%	8/8/2012	8/10/2015	245,000	1.100%
Certificate of Deposit (Non-Callable)	0.900%	8/29/2012	8/29/2016	245,000	0.900%
Certificate of Deposit (Callable)	1.050%	8/29/2012	8/29/2017	245,000	1.050%
Certificate of Deposit (Non-Callable)	0.700%	8/29/2012	2/29/2016	245,000	0.700%
<b>Total Purchases (Jun 1 - Aug 31)</b>				<b>\$11,470,000</b>	<b>0.957%</b>

Interest rates on government securities remain low, with five-year bullet (non-callable) investments continuing to yield less than one percent. The low interest rate environment is prompting callable securities to be redeemed prior to their maturity date. Several purchases were made in both the near- and long-term time periods in an effort to continue the laddering strategy of diversifying the maturities of the investments within the portfolio. These purchased investments have higher yields than investing those monies in LAIF. Certificates of Deposit (CD) continue to be an attractive option to their government counterparts and further diversify the portfolio. Each CD investment is held within the \$250,000 Federal Deposit Insurance Corporation insured amount.

We continue to actively monitor the market for additional investment opportunities.

Attachment: Investment Portfolio as of August 31, 2012

**City of Manhattan Beach**  
**Investment Portfolio Summary**  
*As of August 31, 2012*

<b>PORTFOLIO PROFILE</b>	<b>Aug 31, 2012</b>	<b>Jul 31, 2012</b>	<b>Jun 30, 2012</b>	<b>May 31, 2012</b>	<b>Apr 30, 2012</b>
Total Book Value (Excluding Trust Funds)	\$64,060,542	\$65,680,542	\$67,448,892	\$70,122,427	\$65,936,427
Increase/(Decrease) from Prior Period	(1,620,000)	(1,768,350)	(2,673,536)	4,186,000	5,500,000
Percentage Change	(2.5%)	(2.6%)	(3.8%)	6.3%	9.10%
Average Yield to Maturity (365 Days)	1.087%	1.055%	1.064%	0.996%	1.004%
Increase/(Decrease) from Prior Period	0.032%	(0.009%)	0.069%	(0.008%)	(0.111%)

**PORTFOLIO ALLOCATIONS**

<b>By Security</b>	<b>Value (Par)</b>	<b>Percent</b>	<b>Par YTM</b>	<b>Time Horizon</b>	<b>Percent</b>
LAIF*	\$25,600,000	40.5%	0.377%	Next 12 months	48%
Certificates of Deposit	3,675,000	5.8%	1.246%	Months 13-24	7%
Medium Term Notes	6,000,000	9.5%	2.676%	Months 25-36	15%
Federal Agencies	28,000,000	44.3%	1.358%	Months 37-48	16%
				Months 49-60	13%
<b>Total</b>	<b>\$63,275,000</b>	<b>100.0%</b>	<b>1.080%</b>	<b>Total</b>	<b>100.0%</b>

\*LAIF YTM as of August 31, 2012

**RECENT ACTIVITY**

<b>Security</b>	<b>Date of Activity</b>	<b>Maturity Date</b>	<b>Purchase (Par)</b>	<b>Maturing/Call</b>	<b>YTM</b>
FHLB - 1% Coupon (Callable)	7/3/2012	1/3/2017	\$2,000,000		1.000%
Wells Fargo - 1.25% Coupon	7/20/2012	2/13/2015	1,000,000		1.112%
Berkshire Hathaway - 1.90% Coupon	7/20/2012	1/31/2017	1,000,000		1.030%
Certificate of Deposit - 1.00% Coupon	7/24/2012	7/24/2015	245,000		1.000%
Certificate of Deposit - 1.10% Coupon	7/27/2012	7/27/2017	245,000		1.100%
Certificate of Deposit - 1.10% Coupon	8/8/2012	8/10/2015	245,000		1.100%
Certificate of Deposit - 0.90% Coupon	8/29/2012	8/29/2016	245,000		0.900%
Certificate of Deposit - 1.05% Coupon	8/29/2012	8/29/2017	245,000		1.050%
Certificate of Deposit - 0.7% Coupon	8/29/2012	2/29/2016	245,000		0.700%
<b>Total Purchases</b>			<b>\$5,470,000</b>		<b>1.019%</b>
Called: FHLB - 1.375% Coupon	1/25/2012	3/7/2016		\$1,000,000	1.375%
Called: FNMA - 1.50% Coupon	5/9/2012	5/9/2016		2,000,000	1.500%
Called: FHLMC - 2.05% Coupon	7/27/2012	7/27/2016		3,000,000	2.050%
<b>Total Maturing/Calls</b>				<b>\$6,000,000</b>	<b>1.754%</b>

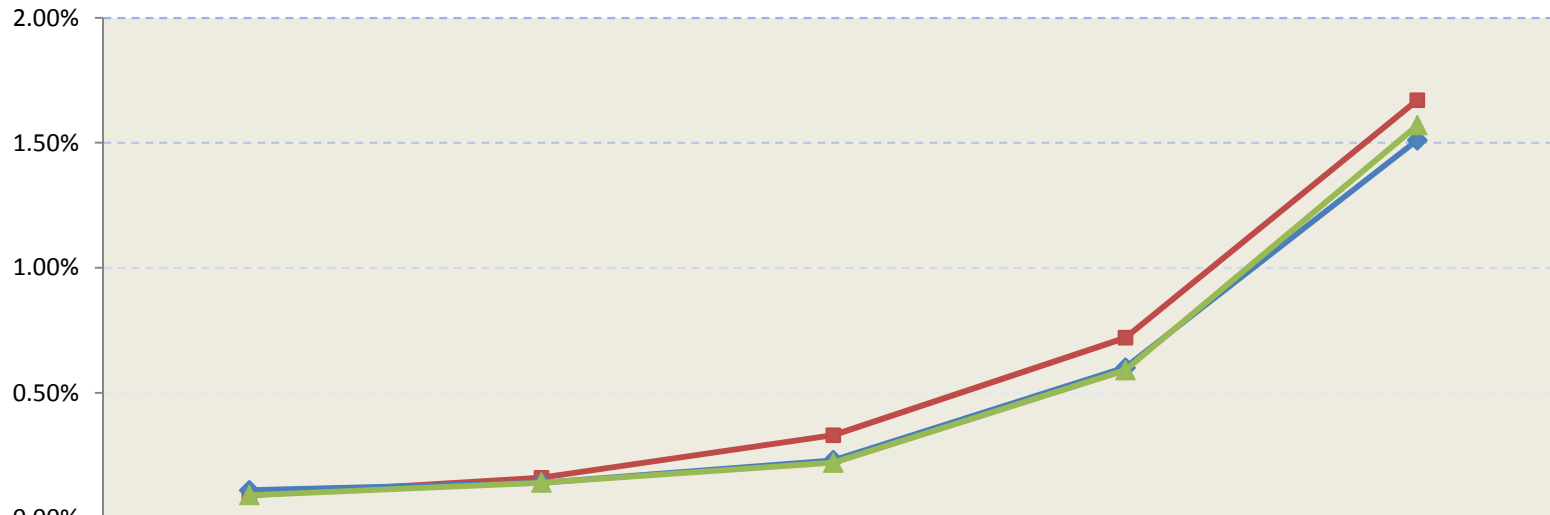
**City of Manhattan Beach**  
**Investment Portfolio Summary**  
*As of August 31, 2012*

<b>PORTFOLIO FUNDS HELD IN TRUST</b>	<b>Value</b>
Police/Fire Debt Service Reserve Fund	\$817,075
Metlox Escrow	11,385,427
Marine Avenue	27,110
RCC Facility	172,205
Pension Bond	46,615
Water/Wastewater Debt Srv Reserve Fund	61
Water/Wastewater Escrow	109
Metlox & Water/Wastewater Refunding	4,290
UUAD Assessment Funds	2,096,841
<b>Total Funds Held in Trust</b>	<b>\$14,549,735</b>

*As of August 31, 2012*

### US Treasuries Yield Curve

[www.treas.gov](http://www.treas.gov)



	3-Month	6-Month	2-Year	5-Year	10-Year
—■— Jun 29 2012	0.09%	0.16%	0.33%	0.72%	1.67%
—◆— Jul 31 2012	0.11%	0.14%	0.23%	0.60%	1.51%
—▲— Aug 31 2012	0.09%	0.14%	0.22%	0.59%	1.57%

**CITY OF MANHATTAN BEACH**  
**Portfolio Maturity Structure**

September 2012 through August 2017

**HELD TO MATURITY**  
**Rolling 60 Months**

Mth	Mat.	YTM	Inv	Call	Amt	Mth	Mat.	YTM	Inv	Call	Amt	Mth	Mat.	YTM	Inv	Call	Amt	Mth	Mat.	YTM	Inv	Call	Amt						
Sep 12	9/15/12	4.15%	MTN	nc	\$1.0M	Sep 13						Sep 14						Sep 15	9/18/15	0.70%	FNMA	12/18/12	\$2.0M	Sep 16	9/28/16	1.18%	FNMA	nc	\$2.0M
Oct 12	10/19/12	3.95%	MTN	nc	\$2.0M	Oct 13	10/18/13	2.03%	FHLB	nc	\$2.0M	Oct 14						Oct 15	10/28/15	1.74%	CD	nc	\$0.2M	Oct 16	10/17/16	1.25%	FNMA	10/17/13	\$2.0M
Nov 12	11/15/12	1.84%	FHLB	nc	\$1.0M	Nov 13						Nov 14	11/13/14	2.33%	FHLMC	nc	\$2.0M	Nov 15						Nov 16					
Dec 12						Dec 13						Dec 14	12/4/14	0.50%	FNMA	6/4/13	\$1.0M	Dec 15						Dec 16	12/29/16	2.10%	CD	nc	\$0.2M
Jan 13						Jan 14						Jan 15						Jan 16						Jan 17	1/3/17	1.00%	FHLB	10/3/12	\$2.0M
Feb 13						Feb 14						Feb 15	2/13/15	1.12%	MTN	nc	\$1.0M	Feb 16	2/1/16	0.80%	FFCB	8/1/12	\$2.0M	Feb 17	2/15/17	1.60%	CD	nc	\$0.2M
Mar 13						Mar 14	3/28/14	1.15%	CD	nc	\$0.2M	Mar 15	3/4/15	2.18%	FFCB	nc	\$2.0M	Mar 16	3/21/16	1.15%	CD	nc	\$0.2M	Mar 17					
Apr 13						Apr 14	3/31/14	1.15%	CD	nc	\$0.2M	Apr 15	3/16/15	1.75%	MTN	nc	\$1.0M	Apr 16						Apr 17					
May 13						May 14						May 15						May 16						May 17	5/30/17	1.10%	CD	5/30/13	\$0.2M
Jun 13						Jun 14						Jun 15	6/1/15	0.80%	CD	nc	\$0.2M	Jun 16	6/10/16	1.23%	FHLB	nc	\$1.0M	Jun 17					
Jul 13	7/8/13	1.88%	FFCB	nc	\$1.0M	Jul 14	7/28/14	1.58%	FHLMC	nc	\$2.0M	Jul 15	7/24/15	1.00%	CD	nc	\$0.2M	Jul 16	6/14/16	0.88%	FFCB	6/14/13	\$2.0M	Jul 17	7/27/17	1.10%	CD	nc	\$0.2M
Aug 13						Aug 14						Aug 15	8/10/15	1.10%	CD	nc	\$0.2M	Aug 16	8/29/16	0.90%	CD	nc	\$0.2M	Aug 17	8/29/17	1.05%	CD	2/28/13	\$0.2M
<b>Total By Year (excl LAIF)</b>					<b>\$5.0M</b>						<b>\$4.5M</b>						<b>\$9.7M</b>						<b>\$10.0M</b>						<b>\$8.5M</b>
<b>% of Total Securities (excl LAIF)</b>					<b>13%</b>						<b>12%</b>						<b>26%</b>						<b>26%</b>						<b>22%</b>
<b>% of Total Investments (incl LAIF)</b>					<b>48%</b>						<b>7%</b>						<b>15%</b>						<b>16%</b>						<b>13%</b>

Total Securities	60%	\$37.7M
LAIF	40%	\$25.6M
<b>Total Investments</b>	<b>100%</b>	<b>\$63.3M</b>

Shaded rows indicate months with significant cash inflows.

# City of Manhattan Beach

## Investment Policy Compliance Chart

As of August 31, 2012

Instrument	Par Value	% of Total	Dollar Compliance		Percentage Compliance		Term Compliance	
			Limit	Compliant?	Limit	Compliant?	Limit	Compliant?
<b>Local Agency Investment Fund (LAIF)</b>	<b>\$25,600,000</b>	<b>40.5%</b>	<b>\$40,000,000</b>	<b>Yes</b>	<i>Temporary Suspension</i>			
<b>Certificates of Deposit</b>								
Ally Bank	\$245,000	0.4%	\$1,000,000	Yes	5.0%	Yes	5 Years	Yes
American Express Centurion Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Bank of Manhattan	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Bank Hapoalim	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Bank of Holland	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Bremer Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Cit Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Discover Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Everbank Jacksonville FL	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Flushing Savings Bank NY	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
GE Capital Financial Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Goldman Sachs Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Merrick Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Safra National Bank	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
Sallie Mae	245,000	0.4%	1,000,000	Yes	5.0%	Yes	5 Years	Yes
<b>Total Certificate of Deposit</b>	<b>\$3,675,000</b>	<b>5.8%</b>			<b>20.0%</b>	<b>Yes</b>		
<b>Medium Term (Corporate) Notes</b>								
Bank America Corporation	\$1,000,000	1.6%			5.0%	Yes	5 Years	Yes
Wells Fargo & Company	1,000,000	1.6%			5.0%	Yes	5 Years	Yes
General Electric Capital	2,000,000	3.2%			5.0%	Yes	5 Years	Yes
Commonwealth Bank Australia	1,000,000	1.6%			5.0%	Yes	5 Years	Yes
Berkshire Hathaway	1,000,000	1.6%			5.0%	Yes	5 Years	Yes
<b>Total Medium Term Notes</b>	<b>\$6,000,000</b>	<b>9.5%</b>			<b>20.0%</b>	<b>Yes</b>		
<b>Federal Agencies</b>								
Federal Home Loan Bank (FHLB)	\$6,000,000	9.5%			33.3%	Yes	5 Years	Yes
Federal Farm Credit (FFCB)	9,000,000	14.2%			33.3%	Yes	5 Years	Yes
Fannie Mae (FNMA)	9,000,000	14.2%			33.3%	Yes	5 Years	Yes
Freddie Mac (FHLMC)	4,000,000	6.3%			33.3%	Yes	5 Years	Yes
<b>Total Federal Agencies</b>	<b>\$28,000,000</b>	<b>44.3%</b>			<b>60.0%</b>	<b>Yes</b>	<b>5 Years</b>	<b>Yes</b>
<b>Total Portfolio</b>	<b>\$63,275,000</b>	<b>100.0%</b>						

Approved by the Finance Subcommittee for the temporary policy suspension to allow over 50% of the portfolio to be invested in LAIF and for the purchase of Medium Term Notes with maturities up to five years, both until December 2012.