



AGENDA REPORT

Department: Administrative Services/Finance
Prepared by: Ron Gutlay, Accountant
Meeting Date: Tuesday, September 6, 2022
Approved by: Brad Raulston, City Manager

SUBJECT:

Investment Report for the quarter ended June 30, 2022.

RECOMMENDATION:

Accept and File the Investment Report for the Quarter ended June 30, 2022.

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:

The California Government Code (§53646(b)) requires that, when the Treasurer or the Chief Fiscal Officer of a local agency renders to the legislative body of the agency a quarterly report on the agency's investment portfolio, such report shall include the following information regarding all securities, investments, and moneys held by the local agency:

- type of investment;
- issuer (bank or institution);
- date of maturity;
- dollar amount invested; and
- current market valuation as of the date of the report.

In addition, the Government Code (§53646(b)2) requires that the report state the City's compliance with its investment policy and include a statement regarding the ability of the local agency to meet its pool's ability to meet its expenditure requirements Code (§53646(b)(3)).

OVERVIEW OF CITY INVESTMENTS

The City's pooled investment portfolio balance as of June 30, 2022 is summarized below and compared to the balance as of June 30, 2021.

Table 1

	6/30/2022	6/30/2021
Book Value ¹	\$ 102,074,448	\$ 89,693,774
Market Value ²	\$ 99,160,013	\$ 90,292,508

¹ actual cost of investments

² amount at which the investments could be sold

The assets of the City of National City’s investment portfolio are managed by Chandler Asset Management which represents the largest portion of the assets, 36.05%, the California Treasurer’s Local Agency Investment Fund (LAIF), and the San Diego County Treasurer’s Pooled Money Fund (“San Diego County Pool”). The San Diego County Pool and LAIF are liquid investment pools that allow participants to earn market rate returns, while retaining access to funds within 24 to 48 hours of a withdrawal request with no penalty. The City’s assets managed by Chandler Asset Management may be liquidated and withdrawn at any time. However, these investments likely do not provide the short liquidity (i.e., quick access to funds) of the pooled money funds, and liquidation of these investments is at the risk of loss and/or penalty to the City.

Summaries of the City’s investment portfolio are illustrated below.

INVESTMENT PORTFOLIO SUMMARY BY ISSUER/MANAGER

As of June 30, 2022

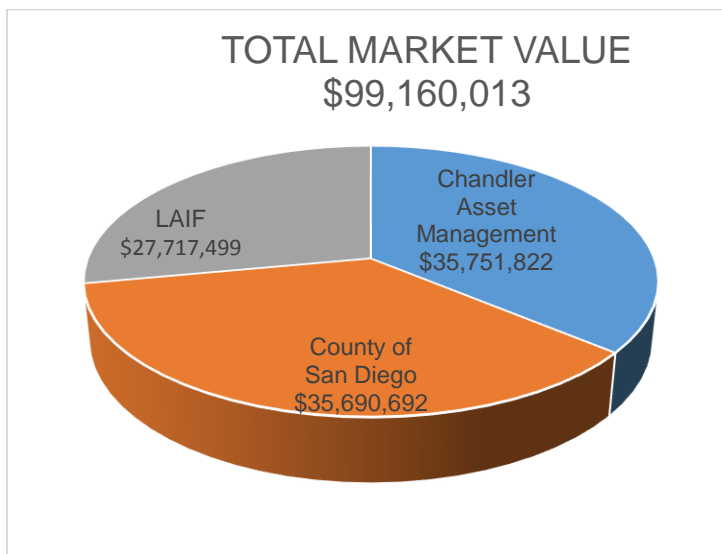
Table 2

Issuer/Manager	Book Value	Total Market Value ¹	Market YTM	% of Portfolio
Chandler Asset Management	37,397,650	35,751,822	3.08%	36.05%
County of San Diego	36,650,950	35,690,692	1.25%	35.99%
Local Agency Investment Fund	28,025,848	27,717,49 ²	0.86% ³	27.95%
Total for June 30, 2022	\$102,074,448	\$99,160,013		100.00%

¹ includes accrued interest

² includes LAIF participation factor of 0.987125414

³ calculated on 30/360 basis



INVESTMENT PERFORMANCE BY ISSUER/MANAGER
For the Quarter Ended June 30, 2022

Table 3 **Total Market Value¹**

Issuer/Manager	6/30/22	3/31/22	Change	Period Return	Yield (Net) ³
Chandler Asset Management	\$35,751,822	\$36,083,954	(\$332,132)	-0.90%	NA
County of San Diego	\$35,690,692	\$35,736,012	(45,320)	-0.13%	-0.51%
Local Agency Investment Fund	\$27,717,499	\$27,710,839	\$6,660	0.19%	0.76%
Totals for June 30, 2022	\$99,160,013	\$99,530,805	(\$370,792) ²	-0.32% ⁴	

¹ includes accrued interest

² total include deposits and (withdrawals) of: no deposit or withdrawal for the period

³ annualized

⁴ weighted

Economic Update:

“Financial markets are experiencing heightened volatility and tighter conditions as central banks employ more restrictive monetary policies to combat persistent inflation. The conflict between Russia and Ukraine has exacerbated inflationary pressures, particularly with energy and commodities, and strict COVID lockdowns in China are intensifying distressed supply chains. Inflation is weighing heavily on consumer sentiment and beginning to impact discretionary spending. Labor markets remain strong, but wage gains are not keeping up with inflation. While we expect the Fed to continue to tighten monetary policy, the FOMC has very little margin for error as it attempts to combat inflation without pushing the economy into a recession. We continue to believe the risk of an economic slowdown later this year has increased. Over the near-term, we expect financial market volatility to remain intensified and conditions to remain tighter with persistent inflation, geopolitical risk, supply chain bottlenecks, and the Fed's shift to a more hawkish monetary policy.

At the June meeting, persistently high inflation led the Federal Open Market Committee (FOMC) to announce a 0.75% federal funds rate increase to 1.50% - 1.75%. Federal Reserve Chair Powell indicated the committee may raise rates by 50 or 75 bps at the July meeting and continue to tighten as needed to dampen inflation. The Fed will continue shrinking its \$9 trillion balance sheet by \$47 billion per month as of June, increasing to \$95 billion in September. We anticipate additional rates hikes as the Fed remains “committed” to the 2% long-term inflation target. In the second half of the year, monetary policy will be dependent on how the economy responds to tighter conditions.

In June, yields rose, and the curve flattened. The 2-year Treasury yield soared 40 basis points to 2.96%, the 5-year Treasury yield increased 22 basis points to 3.04%, and the 10-year Treasury yield rose 17 basis points to 3.02%. The spread between the 2-year and 10-year Treasury yield fell to 6 basis points at June month-end, down from 29 basis points at May month-end, and down significantly from 122 basis points one year ago. The spread between 3-month and 10-year treasuries is wider at about 135 basis points but continues to compress with each Fed rate hike. The shape of the curve bears watching but does not indicate a high probability of an imminent recession.”¹

¹ June 30, 2022 Chandler Asset Management Investment Report

COMPLIANCE STATEMENT

All of the City's investments are in compliance with the City's investment policy (City Council Policy No. 203) and the California Government Code (§53601 et seq).

FINANCIAL STATEMENT

Realized and unrealized gains for the period, reflected below, were \$150,862. These changes include changes in security market values, gain or loss from the sale of assets, accrued interest, and reinvested interest/earnings.

Table 4

Issuer/Manager	Gain/(Loss)
Chandler Asset Management	\$ 39,690
County of San Diego	58,700
LAI	52,472
Total for June 30, 2022	\$ 150,862

The difference between the changes reflected in the previous two tables is attributable to the purchase and sale of securities for which the first of the tables accounts but the second table typically does not (unless an investment is sold before maturity).

STAFF CERTIFICATION

Staff certifies that there are sufficient funds to meet the pool's expenditure requirements.

FINANCIAL STATEMENT:

Not Applicable.

RELATED CITY COUNCIL 2020-2025 STRATEGIC PLAN GOAL:

Not Applicable.

ENVIRONMENTAL REVIEW:

This is not a project and, therefore, not subject to environmental review.

PUBLIC NOTIFICATION:

Agenda Report posted within 72 hours of meeting date and time in accordance with Brown Act.

ORDINANCE:

Not Applicable

EXHIBITS:

Investment Reports