



# AGENDA REPORT

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

**SUBJECT:**

Investment Report for the quarter ended September 30, 2022.

**RECOMMENDATION:**

Accept and File the Investment Report for the Quarter ended September 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 September 30, 2022 is summarized below and compared to the balance as of September 30, 2021.

**Table 1**

	9/30/2022	9/30/2021
Book Value <sup>1</sup>	\$ 116,823,818	\$ 87,964,366
Market Value <sup>2</sup>	\$ 111,966,264	\$ 88,121,562

<sup>1</sup> actual cost of investments

<sup>2</sup> amount at which the investments could be sold

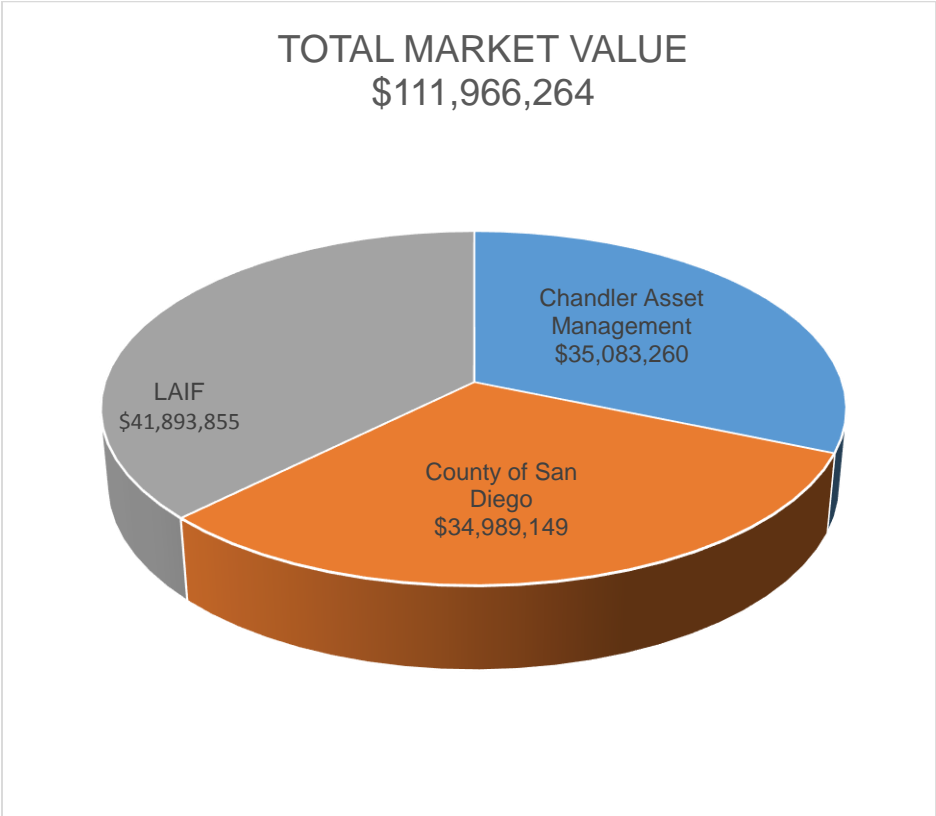
The assets of the City of National City’s investment portfolio are managed by Chandler Asset Management which represents the portion of the assets, 31.33%, the California Treasurer’s Local Agency Investment Fund (LAIF), 37.42%, and the San Diego County Treasurer’s Pooled Money Fund (“San Diego County Pool”), 31.25%. 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 September 30, 2022**

**Table 2**

Issuer/Manager	Book Value	Total Market Value <sup>1</sup>	Market YTM	% of Portfolio
Chandler Asset Management	37,511,841	35,083,260	4.35%	31.33%
County of San Diego	36,733,657	34,989,149	1.80%	31.25%
Local Agency Investment Fund	42,578,320	41,893,855 <sup>2</sup>	1.53% <sup>3</sup>	37.42%
Totals for September 30, 2022	\$116,823,818	\$111,966,264		100.00%

<sup>1</sup> includes accrued interest  
<sup>2</sup> includes LAIF participation factor of 0.980760962  
<sup>3</sup> calculated on 30/360 basis



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

**Table 3** **Total Market Value<sup>1</sup>**

Issuer/Manager	9/30/2022	6/30/22	Change	Period Return	Yield (Net) <sup>3</sup>
Chandler Asset Management	\$35,083,260	\$35,751,822	(\$668,562)	-1.86%	NA
County of San Diego	\$34,989,149	\$35,690,692	(701,543)	-1.99%	-7.71%
Local Agency Investment Fund	\$41,893,855	\$27,717,499	\$14,176,355	0.34%	1.37%
Totals for September 30, 2022	\$111,966,264	\$99,160,013	\$12,806,250 <sup>2</sup>	-0.32% <sup>4</sup>	

<sup>1</sup> includes accrued interest

<sup>2</sup> total include deposits and (withdrawals) as of: 7/20/2022 \$14,500,000

<sup>3</sup> annualized

<sup>4</sup> weighted

**Economic Update:**

“Market volatility has intensified as financial conditions tighten and global central banks pursue monetary policies to combat persistently high inflation and maintain financial market stability. Labor markets and consumer balance sheets remain strong; however, inflation is weighing heavily on consumer sentiment and beginning to impact discretionary spending. Corporate earnings have generally performed better than expected, but warnings are growing along with wider credit spreads. While evidence of slower economic conditions has begun to mount, we expect the Federal Reserve to continue to raise rates until a sustainable improvement in inflationary conditions has been achieved. Over the near-term, we expect financial market volatility to remain intensified and conditions tighter with persistent inflation, geopolitical risk, and the Fed's hawkish monetary policy.

At the September meeting, the Federal Open Market Committee (FOMC) delivered the third 75-basis point increase to the Fed Funds Rate, increasing the range to 3.00% to 3.25%. The FOMC acknowledged spending and production are experiencing modest growth, offset by a robust labor market and elevated inflation metrics. We expect the Fed to continue to increase the federal funds rate in the near term until inflationary pressures weaken.

In September, yields rose significantly across the curve. The 2-year Treasury yield increased 79 basis points to 4.28%, the 5-year Treasury yield rose 74 basis points to 4.09%, and the 10-year Treasury yield gained 64 basis points to 3.83%. The spread between the 2-year Treasury yield and 10-year Treasury yield became more inverted at -45 basis points at September month-end versus -30 basis points at August month-end. The spread was a positive 121 basis points one year ago. The spread between 3-month and 10-year treasuries widened to 56 basis points in September compared to just 27 basis points in August. The shape of the curve does not necessarily indicate an imminent recession but bears watching as a better predictor of recession over the medium-term.”<sup>1</sup>

<sup>1</sup> September 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 \$258,829. 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	\$ 41,422
County of San Diego	82,707
LAIF	134,700
Totals for September 30, 2022	\$ 258,829

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

### **EXHIBIT:**

Exhibit A - Investment Reports