



AGENDA REPORT

Department: Administrative Services/Finance
Prepared by: Kecia Carrasco, Accountant
Meeting Date: Tuesday, June 6, 2023
Approved by: Armando Vergara, Acting City Manager

SUBJECT:

Investment Report for the quarter ended December 31, 2022.

RECOMMENDATION:

Accept and File the Investment Report for the Quarter ended December 31, 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 December 31, 2022 is summarized below and compared to the balance as of December 31, 2021.

Table 1

	12/31/2022	12/31/2021
Book Value ¹	\$ 113,172,340	\$ 86,225,867
Market Value ²	\$ 109,104,483	\$ 86,064,017

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 divided among and managed by three entities: Chandler Asset Management with 32.48% of the total, the California Treasurer's Local Agency Investment Fund (LAIF) with 35.02%, and the San Diego County Treasurer's

Pooled Money Fund (“San Diego County Pool”) with 32.51%. 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 The City’s assets managed by Chandler Asset Management may be liquidated and withdrawn at any time.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

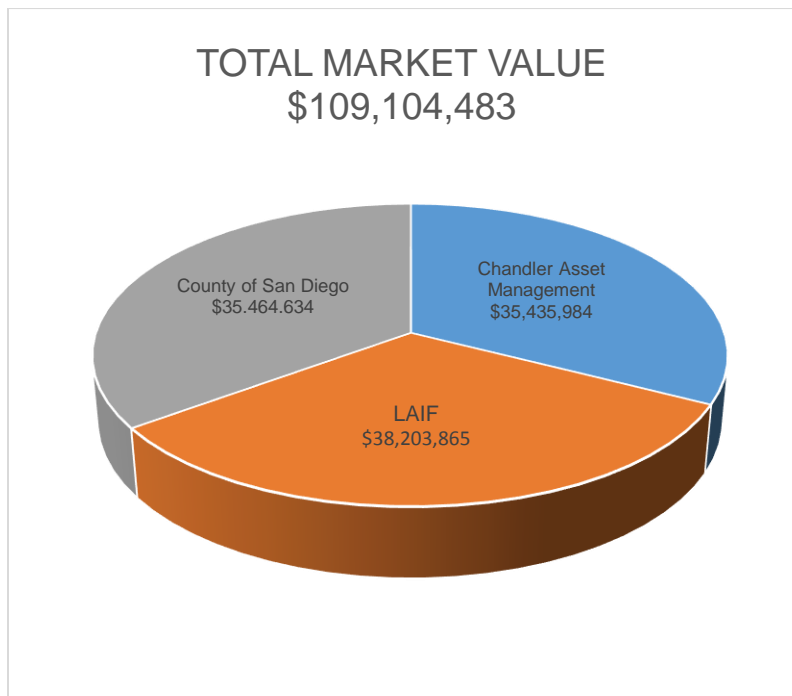
As of December 31, 2022

Table 2

Issuer/Manager	Book Value	Total Market Value ¹	Market YTM	% of Portfolio
Chandler Asset Management	37,584,716	35,435,984	4.52%	32.48%
County of San Diego	36,874,604	35,464,634	2.97%	32.51%
Local Agency Investment Fund	38,713,020	38,203,865 ²	2.17%	35.02%
Totals for December 31, 2022	\$113,172,340	\$109,104,483		100.00%

¹ includes accrued interest

² includes LAIF participation factor of 0.981389258



INVESTMENT PERFORMANCE BY ISSUER/MANAGER

For the Quarter Ended December 31, 2022

Table 3 Total Market Value¹

Issuer/Manager	12/31/2022	9/30/2022	Change	Period Return	Yield (Net) ³
Chandler Asset Management	\$35,435,984	\$35,083,260	\$352,724	1.03%	NA
County of San Diego	\$35,464,634	\$34,989,149	475,485	1.35%	5.50%
Local Agency Investment Fund	\$38,203,865	\$41,893,855	(\$3,689,990)	0.52%	2.11%
Totals for December 31, 2022	\$109,104,483	\$111,966,264	(\$2,861,781) ²	0.95% ⁴	

¹ includes accrued interest

² total includes deposits and (withdrawals) of: 11/10/2022 (\$4,000,000)

³ annualized

⁴ weighted

Economic Update:

“Market volatility has intensified as investors weigh the probabilities of a hard or soft economic landing. The strong labor market has helped sustain economic growth, and inflation remains significantly higher than the Federal Reserve’s target. Financial conditions have eased, and credit spreads have narrowed. Geopolitical risks remain as the Russia/Ukraine war persists and China reopens, while domestically the debt ceiling risk has emerged. After a robust January labor report, strong consumer spending, and higher than expected inflation, interest rate moves and the market consensus have converged with the Fed’s outlook for higher rates for a longer period. We believe the Fed will continue to raise rates and maintain a higher terminal rate for an extended period until inflation reaches the Fed’s target range.

As expected at the February 1st meeting, the Federal Open Market Committee (FOMC) raised the fed funds target rate by 25 basis points to a range of 4.50 - 4.75%, in a continuing downshift from previous hikes. The decision was unanimous and the statement reflects inflation is easing “somewhat.” The sentiment was hawkish, indicating that the extent of “ongoing increases” in the fed funds rate will be data dependent. We believe the FOMC will continue to implement tighter monetary policy at a slower pace and hold rates at restrictive levels for some time until inflationary pressures subside and remain in the Fed’s target range.

In January, the yield curve inversion widened. The 2-year Treasury yield decreased 23 basis points to 4.20%, the 5-year Treasury yield decreased 39 basis points to 3.62%, and the 10-year Treasury yield declined 37 basis points to 3.51%. The inversion between the 2-year Treasury yield and 10-year Treasury yield increased to -69 basis points at January month-end versus -55 basis points at December month-end. The spread was a positive 60 basis points one year ago. The inversion between 3-month and 10-year treasuries increased to -115 basis points in January from -50 basis points in December. The year 2022 saw a dramatic shift in the Federal Reserve’s policy from highly accommodative to aggressive tightening, resulting in significantly higher rates and an inverted yield curve. The shape of the yield curve indicates that the probability of recession is increasing.”¹

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 \$396,987. 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	\$ 44,718
County of San Diego	140,947
LAIF	211,323
Totals for December 31, 2022	\$ 396,987

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