



AGENDA REPORT

Department: Administrative Services - Finance
Prepared by: Kecia Carrasco, Accountant
Meeting Date: Tuesday, March 19, 2024
Approved by: Benjamin A. Martinez, City Manager

SUBJECT:

Investment Report for the Quarter Ended December 31, 2023.

RECOMMENDATION:

Accept and File the Investment Report for the Quarter Ended December 31, 2023.

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, 2023, is summarized below and compared to the balance as of December 31, 2022.

Table 1

	12/31/2023	12/31/2022
Book Value ¹	\$ 115,959,372	\$ 113,172,340
Market Value ²	\$ 114,619,023	\$ 109,104,483

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, the California Treasurer's Local Agency Investment Fund (LAIF) that represents the largest portion of the assets with 35.06%, 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 The City’s assets managed by Chandler Asset Management may be liquidated and withdrawn at any time.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 do not likely 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.

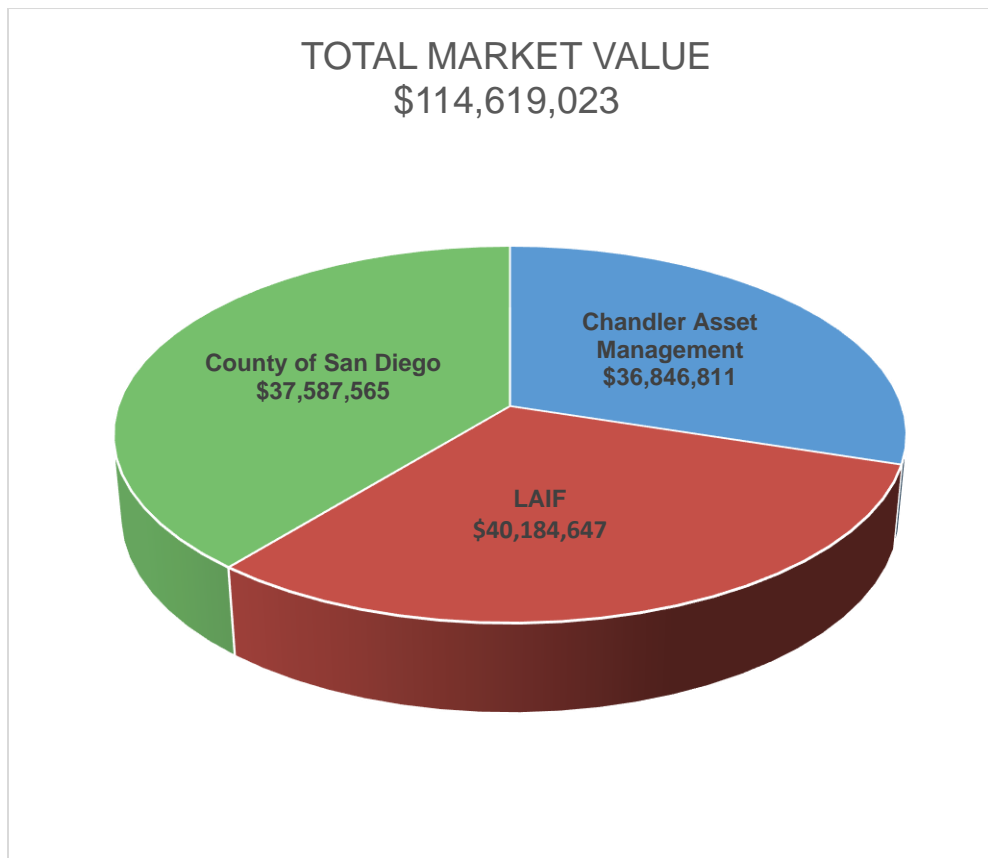
INVESTMENT PORTFOLIO SUMMARY BY ISSUER/MANAGER
As of December 31, 2023

Table 2

Issuer/Manager	Book Value	Total Market Value ¹	Market YTM	% of Portfolio
Chandler Asset Management	37,995,712	36,846,811	4.40%	32.15%
County of San Diego	37,954,446	37,587,565	3.99%	32.79%
Local Agency Investment Fund	40,009,214	40,184,647 ²	3.93%	35.06%
Totals for December 31, 2023	\$115,959,372	\$114,619,023		100.00%

¹ includes accrued interest

² includes LAIF participation factor of 0.993543131



INVESTMENT PERFORMANCE BY ISSUER/MANAGER

For the Quarter Ended December 31, 2023

Table 3 Total Market Value¹

Issuer/Manager	12/31/2023	9/30/23	Change	Period Return	Yield (Net) ³
Chandler Asset Management	\$36,846,811	\$35,944,870	\$901,941	3.14%	NA
County of San Diego	\$37,587,565	\$36,590,392	\$997,173	2.69%	11.22%
Local Agency Investment Fund	\$40,184,647	\$47,357,734	(\$7,173,087)	1.01%	4.08%
Totals for December 31, 2023	\$114,619,023	\$119,892,996	(\$5,273,973) ²	2.21% ⁴	

¹ includes accrued interest

² total includes withdrawals of: \$4,000,000 on 10/16/23 and \$4,000,000 on 11/28/23

³ annualized

⁴ weighted

Economic Update:

“Recent economic data has shown above trend growth fueled by a rise in consumer spending and a continuing healthy US job market. Inflationary trends are subsiding, but core levels remain above the Fed’s target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we believe the economy will gradually soften and the Fed will loosen monetary policy in 2024.

As expected at the January meeting, the Federal Open Market Committee voted unanimously to leave the Federal Funds rate unchanged at a target range of 5.25 - 5.50%. Fed Chair Powell signaled that the federal funds rate is likely at or near its peak, but discounted market expectations of a rate cut in March. We believe the FOMC will loosen monetary policy in mid-2024 as inflation and economic growth continue to moderate.

US Treasury rates declined minimally in the front-end of the yield curve in January. The 2-year Treasury yield declined 4 basis points to 4.21%, the 5-year Treasury yield dropped 1 basis point to 3.84%, and the 10-year Treasury yield decreased 3 basis points to 3.91%. The inversion between the 2-year Treasury yield and 10-year Treasury yield narrowed to -30 basis points at January month-end versus -37 basis points at December month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -69 basis points. The inversion between 3-month and 10-year Treasuries remained at -146 basis points in January from December. Interest rates peaked in the third quarter of 2023 prior to Fed Chair Powell’s dovish remarks late in the year, which resulted in a decline in yields across the curve. The Fed signaled a shift towards less restrictive monetary policy in 2024. The shape of the yield curve indicates that the probability of recession persists.”¹

¹ Chandler Asset Management Quarterly Investment Report (December 31, 2023)

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 gains for the period, reflected below, were \$778,238. 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	\$ 76,701
County of San Diego	267,769
LAIF	433,768
Totals for December 31, 2023	\$ 778,238

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.

RELATED CITY COUNCIL 2020-2025 STRATEGIC PLAN GOAL:

Balanced Budget and Economic Development

ENVIRONMENTAL REVIEW:

This is not a project under CEQA and is therefore not subject to environmental review. CCR15378; PRC 21065.

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 as of Dec. 31, 2023