



DATE: December 8, 2015

CATEGORY: Consent

DEPT.: Investment Review Committee

TITLE: **Annual Report of the Investment Review Committee for Fiscal Year 2014-15**

RECOMMENDATION

1. Accept the Annual Report of the Investment Review Committee for Fiscal Year 2014-15.
2. Adopt a Resolution of the City Council Modifying City Council Policy B-2, Investment Policy, to add Subsections 10.1.13 and 11.15 to allow Supra National securities as a permitted investment, to be read in title only, further reading waived (Attachment 1 to the Council report).

BACKGROUND

This Council report transmits the Annual Report of the Investment Review Committee (IRC) (see Attachment 2) as required by City Council Policy B-2, Investment Policy. The IRC is comprised of the members of the Council Finance Committee (CFC) and two public members with expertise in the area of fixed-income investments appointed by the City Council. The appointed public members are Kevin Olson and Steven Permut, Vice President, Senior Portfolio Manager and Director of Municipal Investments for American Century Investment Management, Inc. The CFC is comprised of Mayor John McAlister and Councilmembers Ken S. Rosenberg and John M. Inks, Chair of the IRC. Appreciation is expressed to the IRC's public members for their advice, expertise, time, and assistance in fulfilling the responsibilities of the Committee. Kevin Olson has served on the IRC for 15 years, but since he no longer is involved in the area of fixed-income securities or treasury function, he has resigned from the IRC.

Policy B-2 requires the IRC meet annually to review the performance, Policy compliance, and management of the City's investment portfolio. This meeting was held on October 20, 2015. The Committee is also required to submit an annual report to the City Council containing the Committee's findings and any recommendations to the Investment Policy.

ANALYSIS

At the October 20, 2015 meeting, the Committee discussed the following aspects of the portfolio:

- The Corporate Note Program, implemented during Fiscal Year 2013-14, was reviewed. Investments in corporate notes are managed by the City's external investment advisor, Chandler Asset Management (Chandler). The General Electric Co. rating downgrade discussed in the IRC report was reviewed. The Committee was comfortable holding the General Electric Co. corporate note because the rating downgrade was associated with the GE Capital subsidiary divesting in real estate. The minor downgrade is offset by the overall GE financial strength and the remaining short duration of the note.
- At last year's annual meeting, Bill Dennehy of Chandler Asset Management, the City's external investment advisor, advised the Committee of a change to Government Code (CA GC) Section 53601 effective January 1, 2015. The modification (Assembly Bill 1933) allows a local agency to invest up to 30 percent of their surplus moneys in obligations issued by the International Bank for Reconstruction and Development (IBRD or World Bank), International Finance Corporation (IFC), or Inter-America Development Bank (IADB); these are more commonly known as "Washington-Based Supra Nationals." He recommended the City consider modifying the Policy to include this new asset class as it is very similar to Government Agencies and provides a diversification alternative. The Committee recommended staff return with an analysis and recommendation at the next annual meeting.

Staff reviewed Assembly Bill 1933 and the added CA GC Section 53601(q). This new asset class is limited to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the IBRD, IFC, or IADB with a maximum maturity of five years or less, eligible for purchase and sale within the United States, with a rating of AA or better by a Nationally Recognized Statistical Rating Organization (NRSRO), and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to CA GC Section 53601.

Staff recommended adding the new asset class to the Policy, limiting the total exposure of each Supra National entity to 5 percent of the portfolio and total not to exceed 10 percent of the portfolio. Upon further discussion, the Committee

supported investing in these types of obligations because of rating quality and additional portfolio diversification. The Committee recommended that the Supra National security also must be rated at least “AA-/Aa-” or equivalent by at least two of the three rating agencies (S&P, Moody’s, and Fitch).

- The Finance and Administrative Services Director began a discussion on callable securities to gauge the Committee’s comfort level on investing in callable securities. Callable securities were added to the Policy in 2012; however, the Committee was not comfortable at that time investing in callable securities and asked that the topic be brought back prior to investing in callable securities. After further discussion, the Committee supported moving forward with callable securities based on staff and Chandler’s advice, because the slight risk of the security being called is offset by the reduced cost of the callable security.

Recommendations from the October 20, 2015 meeting include the following:

- Approve the addition of the Supra National security asset class as a permitted investment with the recommended limitations.

The Committee’s annual report is attached to this report (Attachment 2). The Policy is attached to the resolution and shows markups and strikeouts.

FISCAL IMPACT – None.

ALTERNATIVES

1. Do not accept the Committee’s recommendation.
2. Modify the Committee’s recommendation.

PUBLIC NOTICING – Agenda posting.

Prepared by:

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Investment Review Committee

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Attachments: 1. Resolution
2. Annual Report of the Investment Review Committee for Fiscal Year
2014-15