



DATE: October 28, 2014

CATEGORY: Consent

DEPT.: Investment Review Committee

TITLE: **Annual Report of the Investment Review Committee for Fiscal Year 2013-14**

RECOMMENDATION

1. Accept the Annual Report of the Investment Review Committee for Fiscal Year 2013-14.
2. Adopt a Resolution of the City Council Modifying City Council Policy B-2, Investment Policy, to amend Section 14.2 from required quarterly meetings to semiannual meetings, 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 three members of the Council Finance Committee (CFC) and two public members appointed by the City Council with expertise in the area of fixed-income investments. The appointed public members are Kevin Olson, Treasury Director for Marvell Semiconductor; and Steven Permut, Vice President, Senior Portfolio Manager, and Director of Municipal Investments for American Century Investment Management, Inc. The CFC is comprised of Vice Mayor McAlister and Councilmembers Siegel and Inks, Chair of the Committee. Appreciation is expressed to the IRC's public members for their advice, expertise, time, and assistance in fulfilling the responsibilities of the Committee.

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 September 18, 2014. 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 September 18, 2014 meeting, the Committee discussed the following aspects of the portfolio:

- The Corporate Note Program was implemented during the fiscal year as approved by the Committee and the City Council. Investments in corporate notes are managed by the external investment advisor, Chandler Asset Management. As of June 30, 2014, there are \$22.3 million in corporate notes of five different corporations. The portfolio total rate of return is higher than the benchmark as the program has not been fully implemented, but this is believed to be the appropriate benchmark for corporate notes.
- Bill Dennehy of Chandler Asset Management, the City's external investment advisor, advised the Committee of a change to Government Code Section 53601 that will be 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 Internal Bank for Reconstruction and Development (World Bank), International Finance Corporation (IFC), or Inter-America Development Bank (IABD); these are more commonly known as "Washington-Based Supranationals." He recommends 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.
- Staff's recommendation is to modify Section 14.2 of the Policy. Staff provided four alternatives. The Committee discussed the alternatives, specifically if the City Manager should be required to attend the meetings, and if the number of meetings should be changed from quarterly to semiannually. Monthly reports will still be prepared.

Recommendations from the September 18, 2014 meeting include the following:

- For staff to return next year with an analysis and a recommendation for the Washington-Based Supranational asset class.
- Approve a modification to Section 14.2 of the Policy, changing the meeting requirement from quarterly to semiannual meetings with the external investment advisor, City Manager, and Finance and Administrative Services Director.

The Committee's annual report is attached to this memo (Attachment 2). Policy B-2 is attached to the resolution and shows markups and strikeouts (changes are on Page 16).

FISCAL IMPACT – None.

ALTERNATIVES

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

PUBLIC NOTICING – Agenda posting.

Prepared by:

John M. Inks, Chair
Investment Review Committee

JMI/PJK/7/CAM
001-10-28-14CR-E

- Attachments:
1. Resolution and Draft Council Policy B-2 – Investment Policy
 2. Annual Report of the Investment Review Committee for Fiscal Year 2013-14