



Legislation Text

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Agenda Date: 8/14/2024
Item #: 8.

Presentation regarding update on the City of South San Francisco's investment portfolio (Frank Risso, Treasurer, Karen Chang, Director of Finance, Carlos Oblites, Chandler Asset Management)

RECOMMENDATION

Staff recommends City Council receive a presentation on the investment portfolio.

BACKGROUND/DISCUSSION

California Government Code Section 53600 et seq., strictly governs the investment activities related to public funds. Code provides guidance and restrictions related to permitted investment sectors, concentration limits, minimum credit quality, and maximum maturities permitted. Public agencies may only invest in fixed income securities. The purchase of stock is prohibited. Therefore, the City primarily invests in highly rated debt securities such as U.S. Treasury obligations, federal agency and government sponsored enterprise debt, as well as obligations issued by high credit quality, non-governmental entities such as corporations, and issuers of passthrough securities, and supranational issuers.

California Government Code also specifies that the investment objectives of public agency investment programs shall be safety, liquidity, and return, in that order. As such, the safety of principal is the foremost objective of the City's investment program. The investment program must remain sufficiently liquid to enable the City to meet all cash requirements. The City collaborates with its registered investment advisor, Chandler Asset Management, in managing the City's funds. The City's investment program totals nearly \$352 million, of which Chandler Asset Management currently manages \$272 million. The Chandler-managed portion comprises the City's Mid-Term Portfolio targeting a duration of 2.76 years (\$200,593,548), Limited Maturity Portfolio, which is structured to achieve competitive yields for a portion of the City's most liquid funds (\$65,818,779), and a smaller Pension Reserve Portfolio (\$5,847,635). The remainder comprises cash and investments held in Local Agency Investment Fund (LAIF), the State Treasurer's investment pool for California local governments.

The City's investment program remained safe and liquid during the past year. The portfolio's large allocation to US Treasury and Agency securities continues as a buffer to other markets with their strong liquidity characteristics. Chandler will continue to evaluate and monitor all portfolio holdings.

FISCAL IMPACT

There is no fiscal impact in receiving this presentation.

RELATIONSHIP TO STRATEGIC PLAN

The investment portfolio is consistent with the City's Priority Area 3, Financial Stability.

CONCLUSION

The Investment portfolio is in compliance with the California Government Code and the City's Investment Policy.

The City has sufficient cash and investments to meet its obligations over the next six months.

Attachments:

Attachment 1 - Investment Report for period ending June 30, 2024

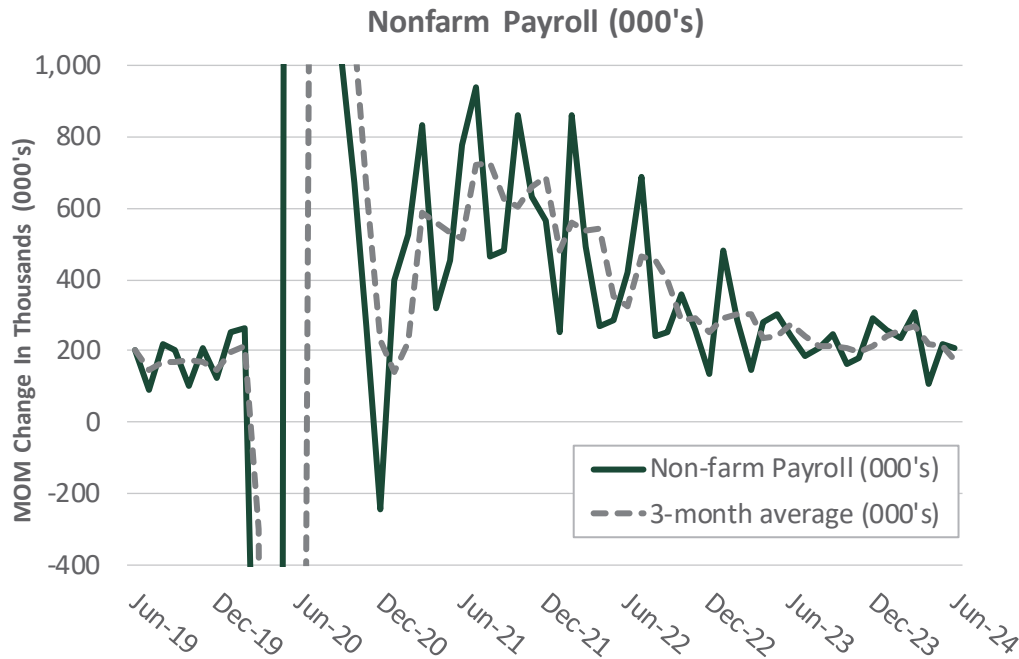
INVESTMENT REPORT

So San Francisco Cons Portfolio | Account #10061 | As of June 30, 2024

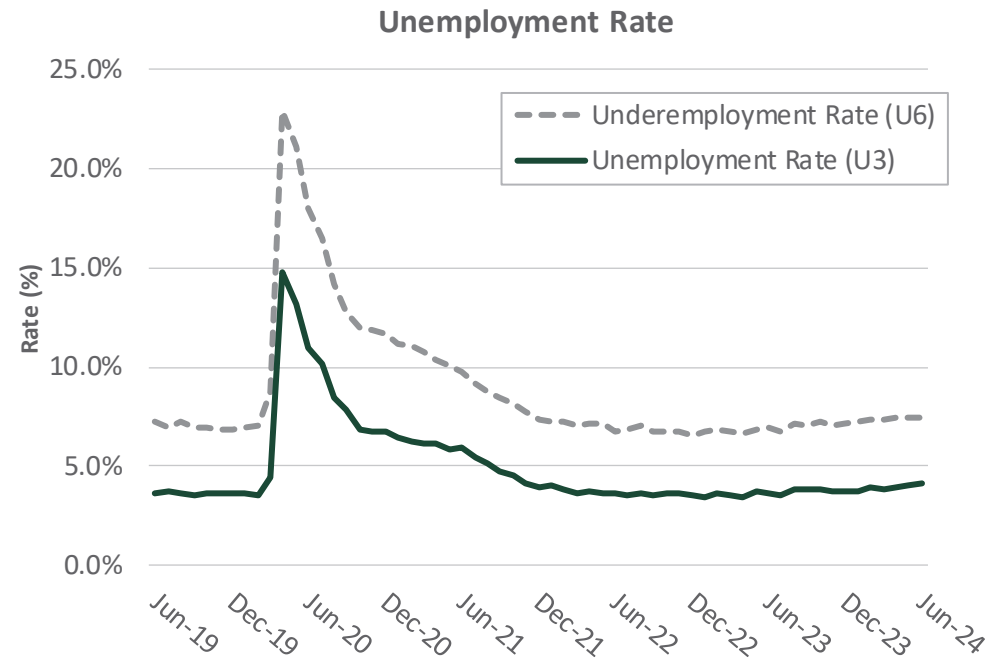
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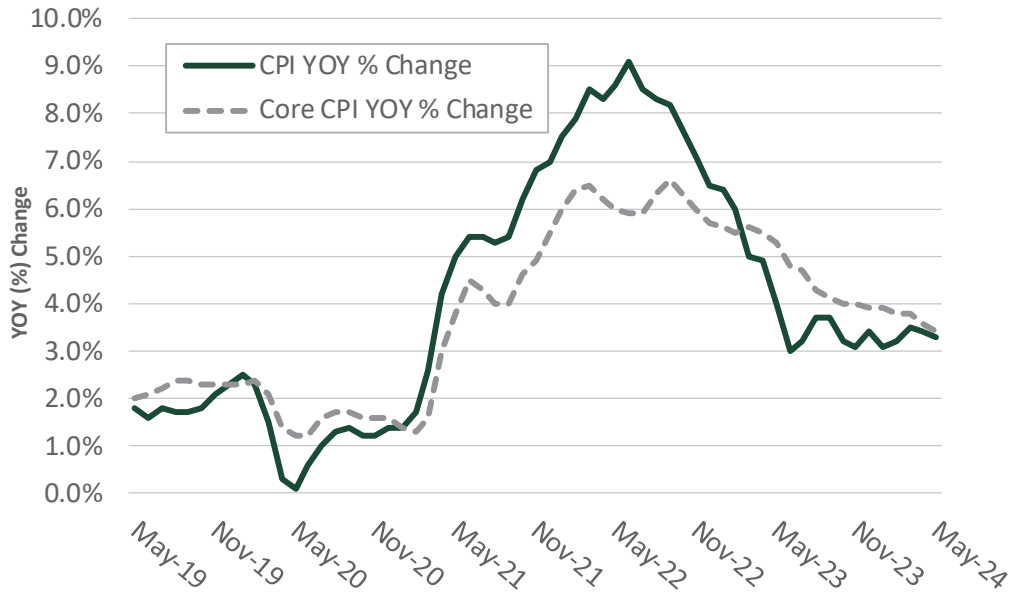
Source: US Department of Labor



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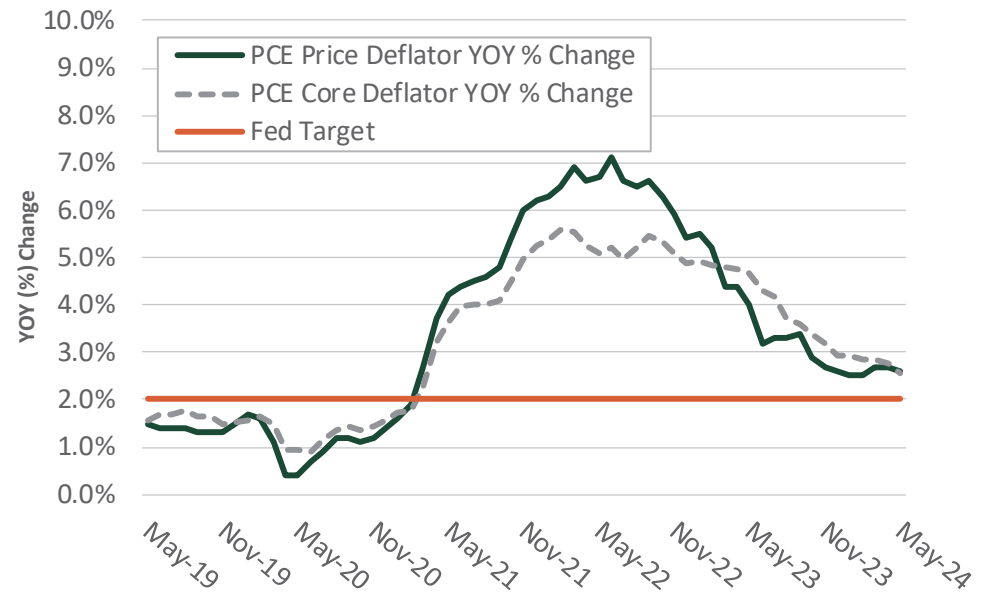
The U.S. economy added 206,000 jobs in June, remaining ahead of consensus expectations of 190,000 jobs. The gains were broad based, with government, health care, and social assistance posting the largest gains. The three-month moving average and six-month moving average payrolls have weakened from the first quarter to 177,000 and 222,000 respectively. The unemployment rate edged up to 4.1% in June, and the labor participation rate inched up to 62.6%, remaining below the pre-pandemic level of 63.3%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons held steady at 7.4%. Average hourly earnings rose 3.9% year-over-year in June, down from 4.1% year-over-year in May. The labor markets continue to show signs of cooling in line with the Federal Reserve’s view that there has been “substantial” progress towards better balance in the labor market between demand and supply for workers.

Consumer Price Index (CPI)



Source: US Department of Labor

Personal Consumption Expenditures (PCE)



Source: US Department of Commerce

In May, the Consumer Price Index (CPI) remained unchanged month-over-month and rose 3.3% year-over-year, reflecting broad-based cost reductions. The Core CPI, which excludes volatile food and energy components, was up 0.2% month-over-month and 3.4% year-over-year in May, down from 3.6% in April and lower than expected. The Personal Consumption Expenditures (PCE) Index decelerated in May as expected. The headline PCE deflator was unchanged in May from April versus up 0.3% in the prior month. Year-over-year, the PCE deflator rose 2.6%. The Core PCE deflator (the Fed's preferred gauge) increased 0.1% in May from the prior month versus up 0.3% in April. The Core PCE deflator also rose 2.6% year-over-year, still above the Fed's 2% inflation target. Much of the lingering inflation has been driven by shelter costs and demand for services.

OBJECTIVES



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Investment Objectives

The City of South San Francisco's investment objectives, in order of priority, are to provide safety to ensure the preservation of capital in the overall portfolio, provide sufficient liquidity for cash needs and a market rate of return consistent with the investment program.

Chandler Asset Management Performance Objective

The performance objective for the portfolio is to earn a total rate of return through a market cycle that is equal to or above the return on the benchmark index.

Strategy

In order to achieve these objectives, the portfolio invests in high quality fixed income securities consistent with the investment policy and California Government Code.

	Inception	Market Value as of June 30, 2024
Mid-Term Portfolio	March 31, 2009	\$200,593,548
Limited Maturity Portfolio	January 31, 2023	\$65,818,779
Pension Reserve Portfolio	December 31, 2022	\$5,847,635
Liquidity (Investment Pools and Cash)	N/A	\$79,435,520
Total Investment Program		351,695,482

Source: Chandler Asset Management. Does not include realized nor unrealized gains and losses.

PORTFOLIO CHARACTERISTICS



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	6/30/2024 Portfolio	3/31/2024 Portfolio
Average Maturity (yrs)	1.77	1.69
Average Modified Duration	1.54	1.50
Average Purchase Yield	3.83%	3.49%
Average Market Yield	4.75%	4.60%
Average Quality**	AA+	AA+
Total Market Value	351,695,482	346,561,009

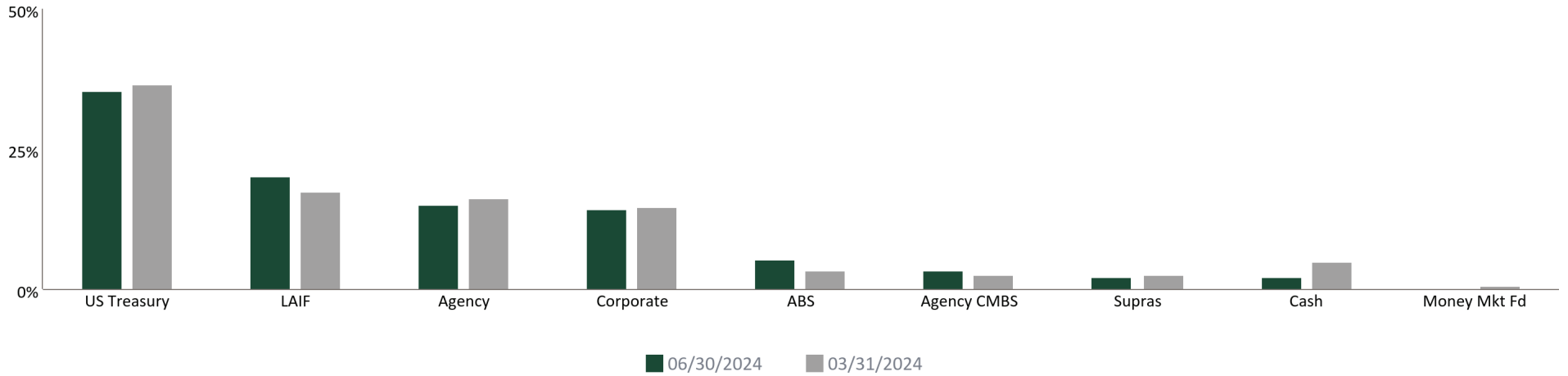
*Benchmark: NO BENCHMARK REQUIRED

**The credit quality is a weighted average calculation of the highest of S&P, Moody's' and Fitch.

SECTOR DISTRIBUTION



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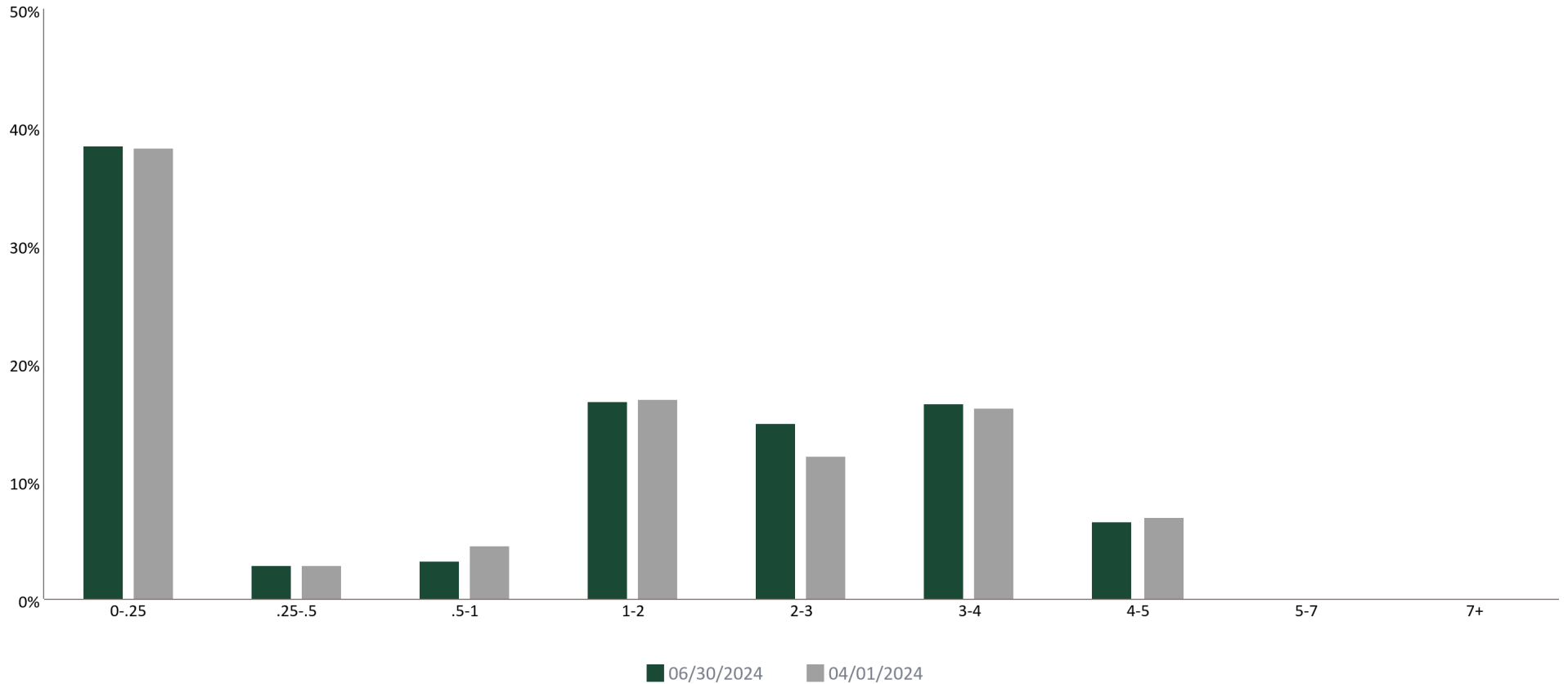
Sector as a Percentage of Market Value

Sector	06/30/2024	03/31/2024
US Treasury	35.7%	36.7%
LAIF	20.5%	17.4%
Agency	15.4%	16.3%
Corporate	14.5%	14.8%
ABS	5.4%	3.6%
Agency CMBS	3.7%	2.7%
Supras	2.5%	2.5%
Cash	2.2%	5.1%
Money Mkt Fd	0.1%	0.8%

DURATION DISTRIBUTION



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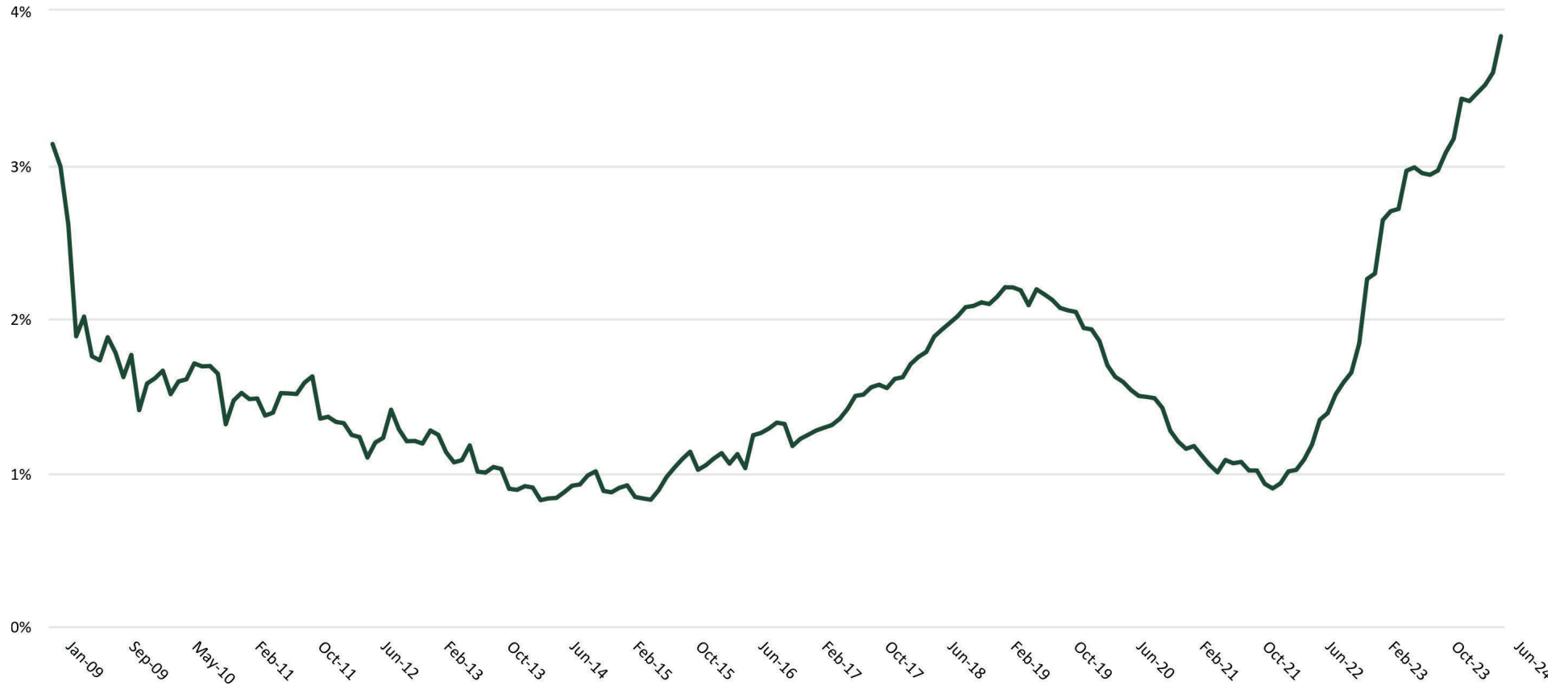
Date	0-.25	.25-.5	.5-1	1-2	2-3	3-4	4-5	5-7	7+
06/30/2024	38.5%	3.0%	3.4%	16.8%	15.1%	16.6%	6.6%	0.0%	0.0%
03/31/2024	38.4%	3.0%	4.7%	17.0%	12.2%	16.2%	7.0%	0.0%	0.0%

HISTORICAL AVERAGE PURCHASE YIELD



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Purchase Yield as of 06/30/24 = 3.83%



	FY 2022-23 Interest Income	FY 2023-24 Interest Income
Mid-Term Portfolio	\$3,386,338	\$3,989,531
Limited Maturity Portfolio	\$1,229,567	\$2,979,563
Pension Reserve Portfolio	\$153,259	\$245,255
Total Investment Program Managed by Chandler	\$4,769,164	\$7,214,349

Source: Chandler Asset Management. Does not include realized nor unrealized gains and losses.

IMPORTANT DISCLOSURES



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2024 Chandler Asset Management, Inc, An Independent Registered Investment Adviser.

Information contained herein is confidential. Prices are provided by ICE Data Services Inc (“IDS”), an independent pricing source. In the event IDS does not provide a price or if the price provided is not reflective of fair market value, Chandler will obtain pricing from an alternative approved third party pricing source in accordance with our written valuation policy and procedures. Our valuation procedures are also disclosed in Item 5 of our Form ADV Part 2A.

Performance results are presented gross-of-advisory fees and represent the client’s Total Return. The deduction of advisory fees lowers performance results. These results include the reinvestment of dividends and other earnings. Past performance may not be indicative of future results. Therefore, clients should not assume that future performance of any specific investment or investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Economic factors, market conditions or changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio.

Index returns assume reinvestment of all distributions. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index.

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Fixed income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

Ratings information have been provided by Moody’s, S&P and Fitch through data feeds we believe to be reliable as of the date of this statement, however we cannot guarantee its accuracy.

Security level ratings for U.S. Agency issued mortgage-backed securities (“MBS”) reflect the issuer rating because the securities themselves are not rated. The issuing U.S. Agency guarantees the full and timely payment of both principal and interest and carries a AA+/Aaa/AAA by S&P, Moody’s and Fitch respectively.