

# **City of Los Angeles**

## **Office of Finance**



## **INVESTMENT REPORT**

### **October 31, 2014**

**Antoinette Christovale**  
**City Treasurer**

**Tom Juarez**  
**Chief Investment Officer**

200 N. Spring Street  
Room 220, City Hall  
Los Angeles, CA 90012  
(213) 978-1774

**ANTOINETTE CRISTOVALE**  
DIRECTOR of FINANCE  
CITY TREASURER

# CITY OF LOS ANGELES

CALIFORNIA



**ERIC GARCETTI**  
MAYOR

OFFICE OF FINANCE  
200 N. SPRING ST.  
ROOM 220 – CITY HALL  
LOS ANGELES, CA 90012  
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(213) 978-1774

January 9, 2015

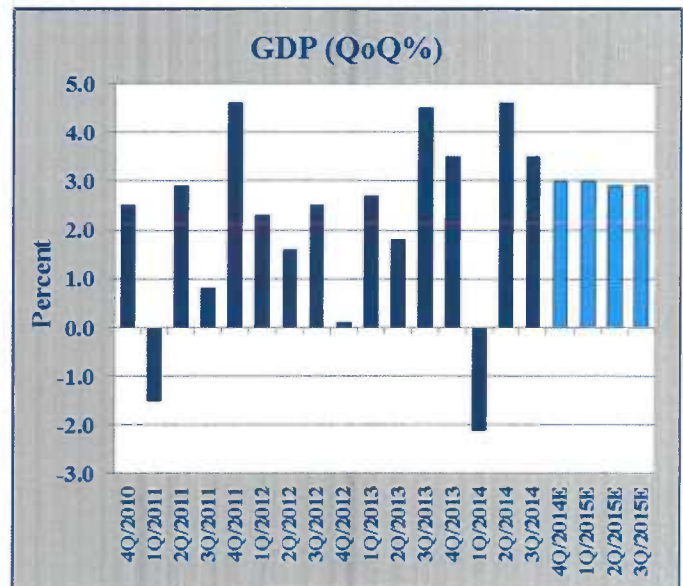
Honorable Members of City Council  
of the City of Los Angeles

Honorable Members:

This is the Investment Report for the month ending October 31, 2014. It is provided to ensure the City Council is informed of the Department's activities. It satisfies the recommended reporting requirements of the City of Los Angeles Administrative Code, Chapter 5.1, Article 1, Section 20.90, which addresses the City Council's request for monthly financial information.

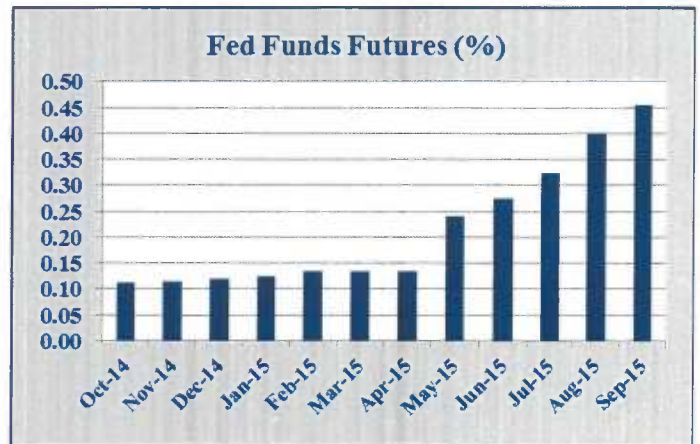
## INVESTMENT ENVIRONMENT<sup>1</sup>

The U.S. economy (as measured by the Gross Domestic Product-GDP) increased at an annual rate of 3.5% for the third quarter of 2014, which is 0.5% higher from what was estimated the previous month. The current anticipated growth rate for all of 2014 is 2.2%, which is 0.1% higher than last month's 2014 full-year forecast. The U.S. unemployment rate for October 2014 was 5.8%, which is 0.1% lower than last month's rate. The Consumer Price Index (CPI) increased 1.7% for the twelve months ending October 2014. Prices are higher, in part, due to higher education and wage costs. U.S. consumer spending, as measured by Retail Sales, increased 4.1% over the past twelve months.



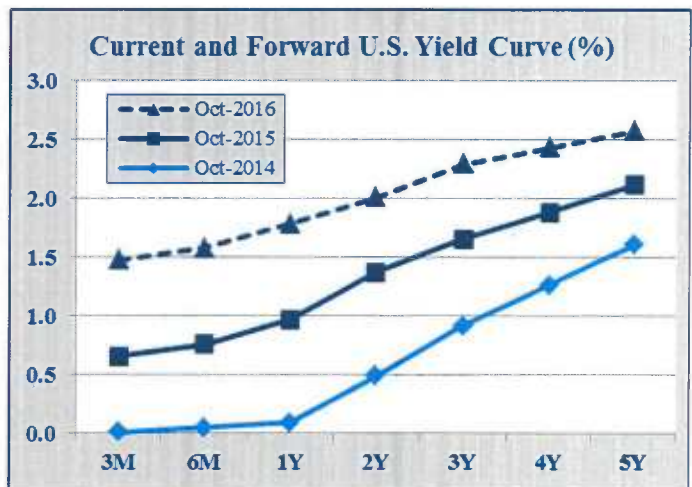
<sup>1</sup> Source: Bloomberg Finance L.P.

The Federal Reserve held the Fed Funds rate within the range of 0.0% and 0.25% at its October 29, 2014 meeting. The Federal Reserve stated, “Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing. Household spending is rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow.”



### CURRENT AND FORWARD INTEREST RATES

The current U.S. Treasury yield curve is a normal, upwardly sloping curve—giving longer term investors more yield as they realize more interest rate risk than shorter term investors. Forward yield curves, which are based upon the current rates, indicate rising short-term and long-term rates in the future.



### COMPLIANCE

Investment transactions were executed in accordance with the California State Government Code and the City’s Investment Policy. The City Treasurer believes the General Pool contains sufficient cash flow liquidity to meet the next six months of expected expenditures.

### REVIEW AND MONITORING

FTN Financial Main Street Advisors, the City’s investment advisor, currently monitors the Department’s investment activities.

## PORTFOLIO CHARACTERISTICS

The Office of Finance invests primarily in a variety of fixed income securities in accordance with current policy and guidelines. The following table summarizes the key characteristics of the City's investment portfolios as of October 31, 2014.

Portfolio Funds	Amount of Funds at Market Value	Effective Yield	Average Weighted Maturity	Average Credit Rating
Core Portfolio	\$1,357,305,693	0.48%	43 Days	AA+
Reserve Portfolio	\$6,391,877,039	1.24%	2.8 Years	AA+
Total Investment Pool	\$7,749,182,732	1.11%	2.3 Years	AA+

**NOTE:** Effective yield is a **snapshot** of how much an investment would yield *assuming that when interest is received it is immediately reinvested*. It does not include capital gains or losses in its computation. The effective yield of the Core Portfolio excludes that of cash (bank balances). The Average Credit Rating is a weighted average rating using both Standard & Poor's and Moody's, and is expressed in terms of a Standard & Poor's rating.

## INVESTMENT PERFORMANCE<sup>2</sup>

	Core Portfolio	Reserve Portfolio	Combined Portfolio
Market Value	\$1,357,305,693	\$6,391,877,039	\$7,749,182,732
Total Rate of Return	0.01%	0.46%	n/a
Benchmark Total Rate of Return	0.00%	0.48%	n/a
Variance	0.01%	-0.02%	n/a

The City measures investment performance on a total return basis to an established industry recognized benchmark\*. The above table summarizes the October 31, 2014 portfolio total rate of return for the City's General Pool. Additional investment information may be found on page 6 through 28 of this report.

The objective of the Core Portfolio is to preserve capital, maintain liquidity and earn income. The 3-month T bill index is the most appropriate available index to use. The Core Portfolio does not mirror the investments in the index due to limited (Thursday) maturities, and the large daily cash flows of the City, which require the placement, and subsequent maturity of securities daily.

\*The benchmark index for the Reserve Portfolio was changed August 1, 2013. This index, which was created in 2013 by Bank of America Merrill Lynch, more closely matches the California State Code and the City's Investment policy in specific regard to corporate medium term notes as compared to the previously used index.

<sup>2</sup> Performance is measured as mandated by the Global Investment Performance Standards, which is published by the CFA Institute and is widely accepted as the source of industry standard performance metrics. Section 2.A.1 states that total return, including realized and unrealized gains and losses must be used.

If you have any questions about the information contained in this report, please contact me at (213) 978-1774 or Tom Juarez, Chief Investment Officer, at (213) 978-4039.

Respectfully,

  
Antoinette Christovale, CPA  
City Treasurer

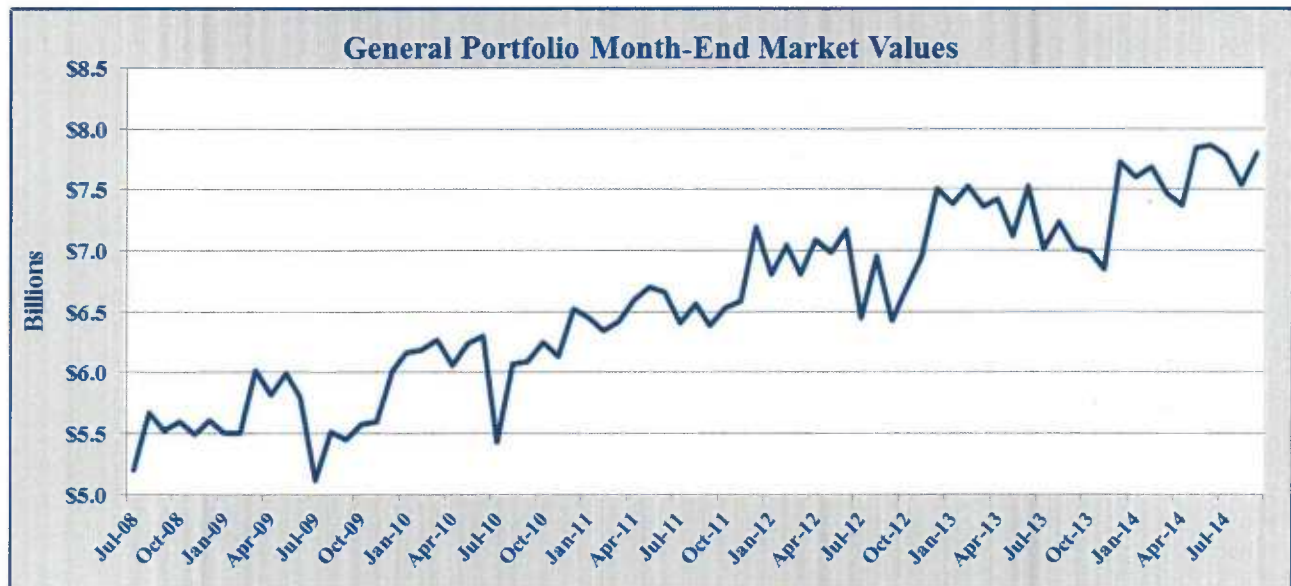
Attachments

cc: Honorable Ron Galperin, City Controller  
Ana Guerrero, Mayor's Chief of Staff  
Rick Cole, Deputy Mayor of Budget and Innovation  
Miguel Santana, City Administrative Officer  
Sharon Tso, Chief Legislative Analyst  
Investment Reports File  
Chron File

**GENERAL PORTFOLIO ASSET HOLDINGS**  
 October 31, 2014

Description	Par Value	Market Value	Percent of Total	Average Days	Weighted Years
Bank Deposits*	\$256,182,649	\$256,182,649	3.31%	1	0.0
BNYM Sweep Account	\$0	\$0	0.00%	0	0.0
L.A.I.F. (State of California)	\$0	\$0	0.00%	0	0.0
Subtotal: Cash & Overnight Inv.	\$256,182,649	\$256,182,649	3.31%	1	0.0
CDARS	\$7,000,000	\$7,000,000	0.09%	63	0.2
Commercial Paper	\$774,000,000	\$773,952,922	9.99%	22	0.1
Negotiable Cert. of Deposit	\$0	\$0	0.00%	0	0.0
Corporate Notes	\$179,550,000	\$180,965,028	2.34%	182	0.5
U.S. Federal Agencies	\$138,565,000	\$139,205,094	1.80%	51	0.1
U.S. Treasuries	\$0	\$0	0.00%	0	0.0
Subtotal: Pooled Investments	\$1,099,115,000	\$1,101,123,044	14.21%	52	0.1
<b>Total Short-Term Core Portfolio:</b>	<b>\$1,355,297,649</b>	<b>\$1,357,305,693</b>	<b>17.52%</b>	<b>43</b>	<b>0.1</b>
Money Market Funds	\$0	\$0	0.00%	0	0.0
Commercial Paper	\$0	\$0	0.00%	0	0.0
Negotiable Cert. of Deposit	\$0	\$0	0.00%	0	0.0
Corporate Notes	\$1,319,079,000	\$1,326,547,520	17.12%	1,097	3.0
U.S. Federal Agencies/Municipals	\$699,000,000	\$707,885,375	9.13%	966	2.6
U.S. Treasuries	\$4,289,000,000	\$4,357,444,144	56.23%	988	2.7
<b>Total Long-Term Reserve Portfolio</b>	<b>\$6,307,079,000</b>	<b>\$6,391,877,039</b>	<b>82.48%</b>	<b>1,008</b>	<b>2.8</b>
<b>Total Cash &amp; Pooled Investments</b>	<b>\$7,662,376,649</b>	<b>\$7,749,182,732</b>	<b>100.00%</b>	<b>839</b>	<b>2.3</b>

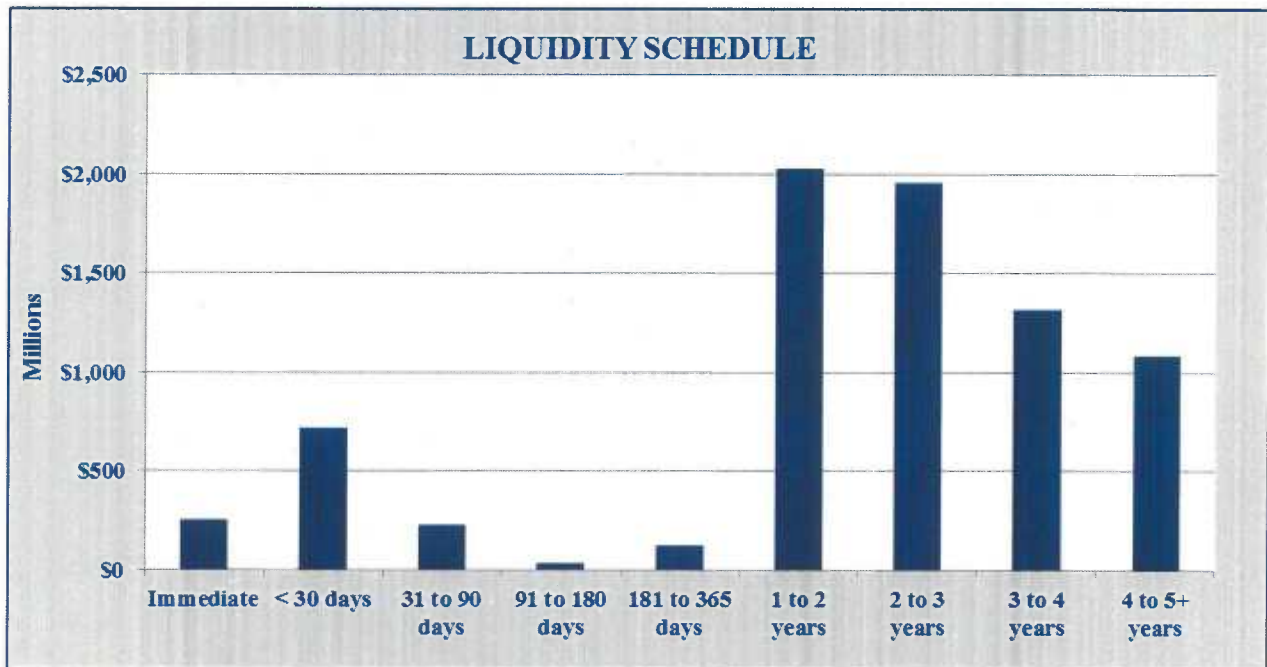
\*Collected Balance for Wells Fargo Active Accounts  
 Figures may not total due to rounding



**GENERAL PORTFOLIO LIQUIDITY SCHEDULE**  
 October 31, 2014

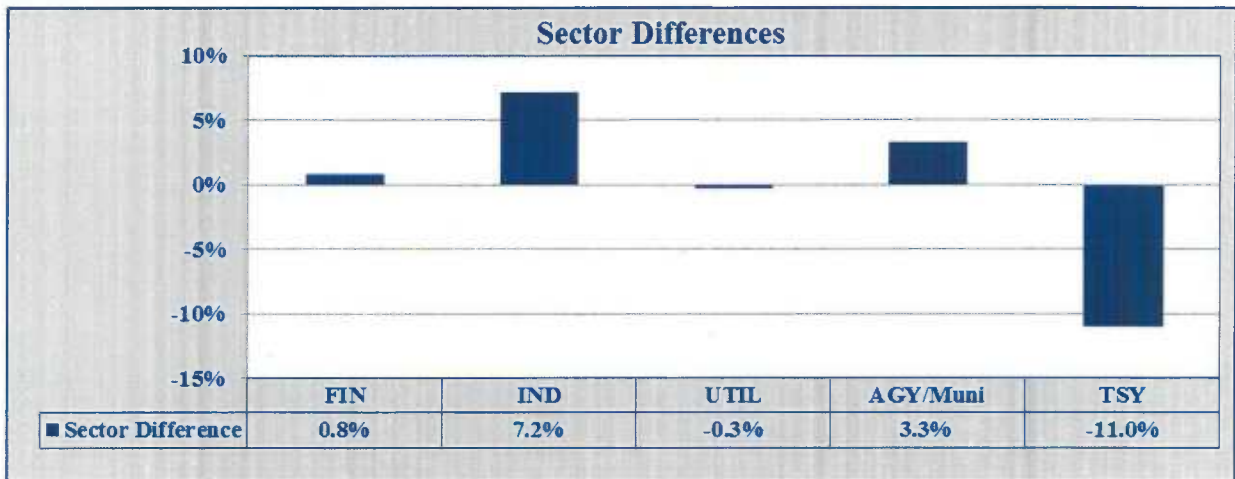
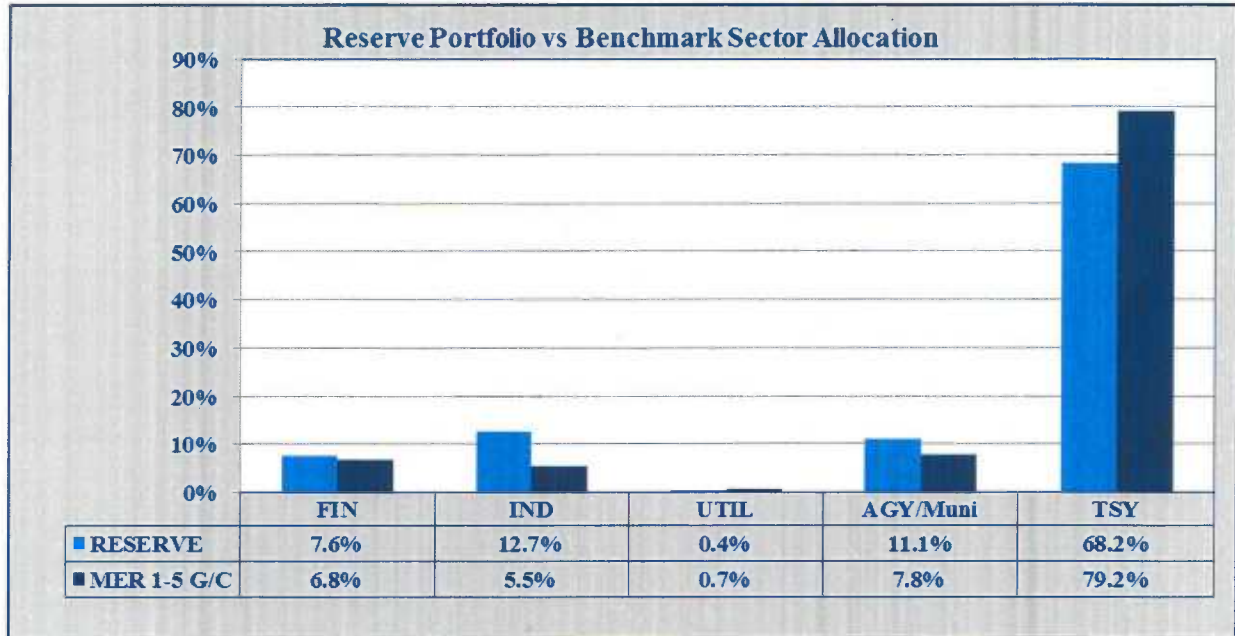
Description	Availability	Market Value	Cumulative	Percent of Total Funds
L.A.I.F. State of California		\$0	\$0	0%
BNYM Sweep Account		\$0	\$0	0%
Bank Deposits*		\$256,182,649	\$256,182,649	3.31%
Subtotal			\$256,182,649	3.31%
Pooled Investments Maturing:				
	<30 days	\$716,535,077	\$972,717,726	12.55%
	31 to 90 days	\$226,644,616	\$1,199,362,342	15.48%
	91 to 180 days	\$35,271,050	\$1,234,633,393	15.93%
	181 to 365 days	\$122,672,300	\$1,357,305,693	17.52%
	1 to 2 years	\$2,026,440,937	\$3,383,746,631	43.67%
	2 to 3 years	\$1,956,989,593	\$5,340,736,224	68.92%
	3 to 4 years	\$1,319,883,210	\$6,660,619,434	85.95%
	4 to 5+ years	\$1,088,563,298	\$7,749,182,732	100.00%
<b>Total Cash and Pooled Investments</b>		<b>\$7,749,182,732</b>		

\*Collected Balance for Wells Fargo Active Accounts.  
 Figures may not total due to rounding



### RESERVE PORTFOLIO SECTOR ALLOCATION

October 31, 2014



Sector Allocation Chart - Highlights the portfolio differences versus the benchmark with respect to the percentage of assets in each sector. Figures may not total due to rounding.

FIN – Financial Services

IND – Industrial

UTIL – Utilities

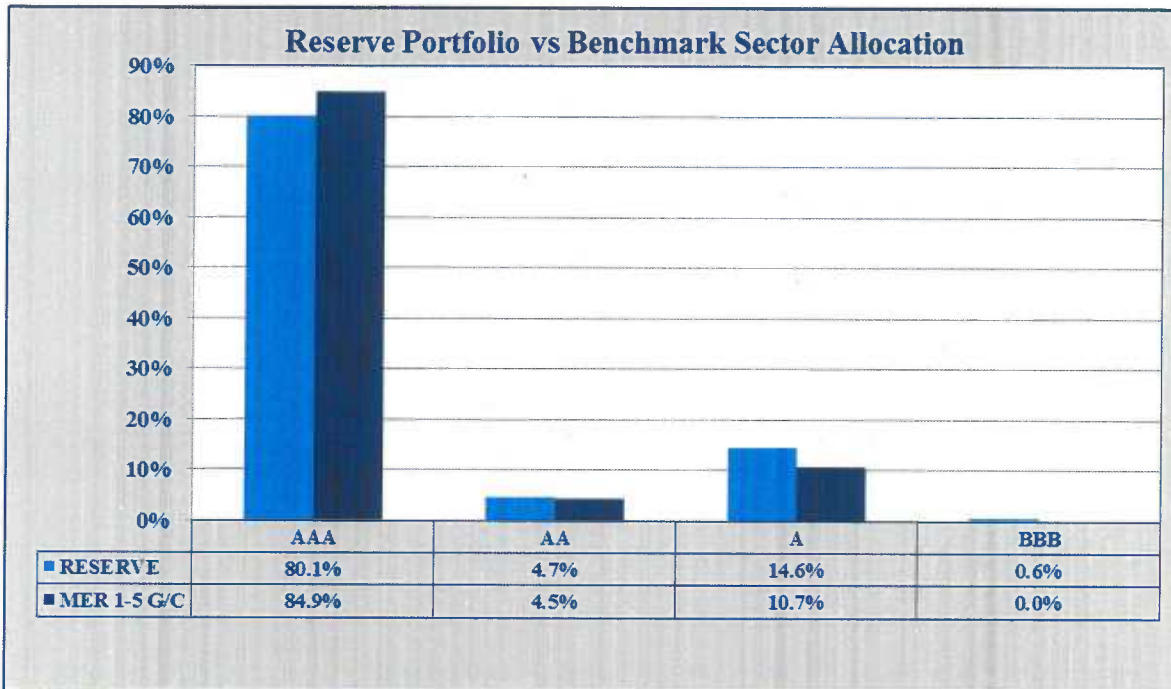
AGY- Government Agencies

TSY – Treasury Notes and Bonds

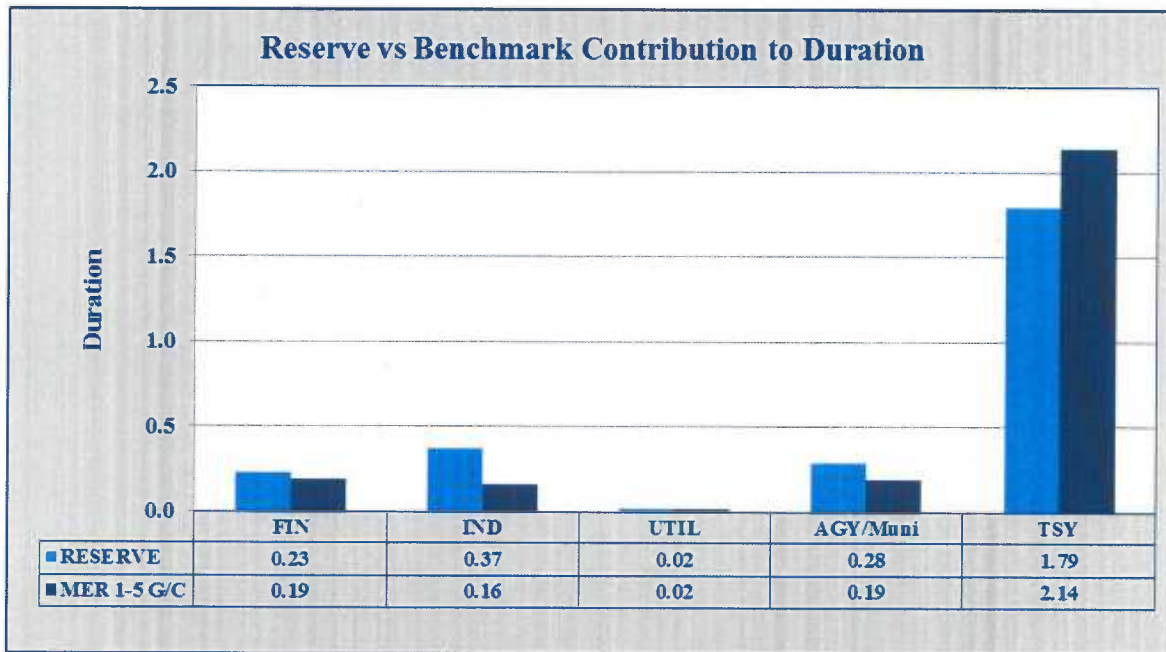
MER 1-5 G/C – Merrill Lynch 1-5 year Government and U.S. Corporate A-AAA Index



**RESERVE CREDIT RATINGS and DURATION**  
 October 31, 2014



Credit Ratings Chart – Highlights the portfolio differences versus the benchmark with respect to percentage of assets in each of the Moody’s Credit Ratings allocations.



Contribution to Duration Chart – Highlights the portfolio differences versus the benchmark based on the contribution to the overall portfolio duration. This measure explains the sensitivity of each sector to changes in interest rates.

**INVESTMENT PERFORMANCE**  
 October 31, 2014

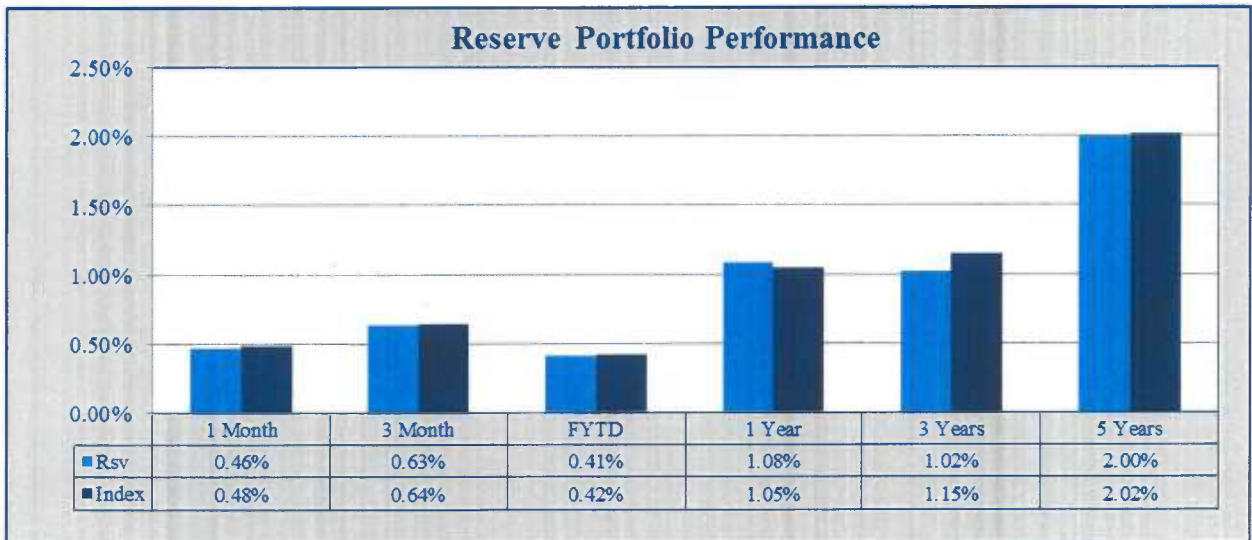
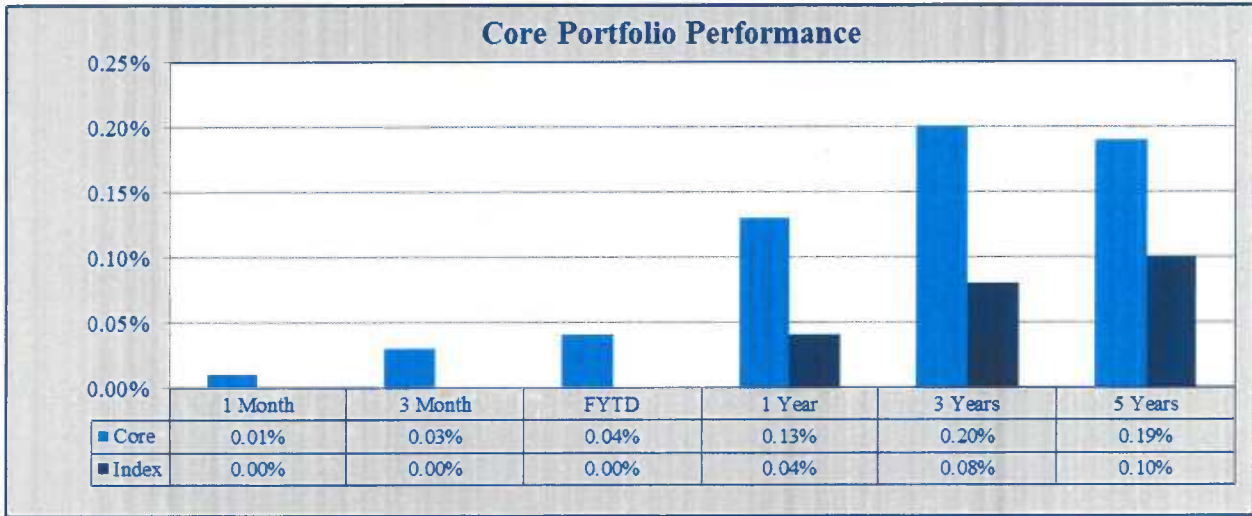
	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years
<b>Core Portfolio</b>	0.01%	0.03%	0.04%	0.13%	0.20%	0.19%
<b>3 Month Treasury Bill Index*</b>	0.00%	0.00%	0.00%	0.04%	0.08%	0.10%
<b>Variance</b>	0.01%	0.03%	0.04%	0.09%	0.12%	0.09%

	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years
<b>Reserve Portfolio</b>	0.46%	0.63%	0.41%	1.08%	1.02%	2.00%
<b>1-5 Year Govt/Corp Index**</b>	0.48%	0.64%	0.42%	1.05%	1.15%	2.02%
<b>Variance</b>	-0.02%	-0.01%	-0.01%	0.03%	-0.13%	-0.02%

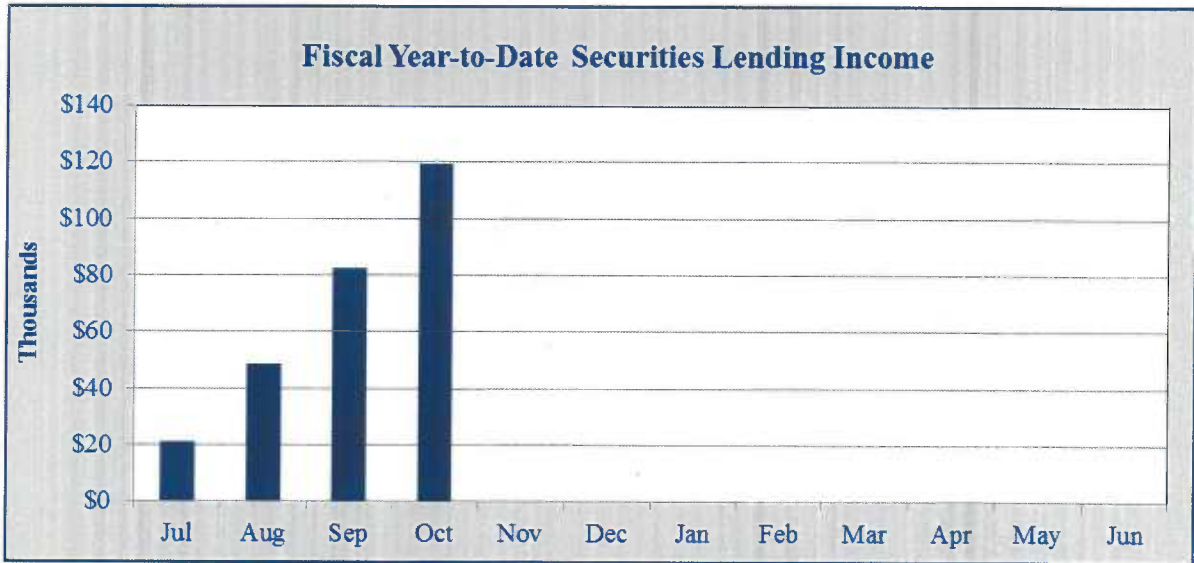
1Y, 3Y, 5Y returns are annualized rates of return

\*Core Benchmark: Merrill Lynch 3 Month Treasury Bill Index (G001).g

\*\*Reserve Benchmark: Merrill Lynch 1-5 Year Government and U.S. Corporate A-AAA Index (BU10) August 2013 and forward  
 Merrill Lynch 1-5 Year Government and Corporate A-AAA Index (BV10) – Prior to August 2013

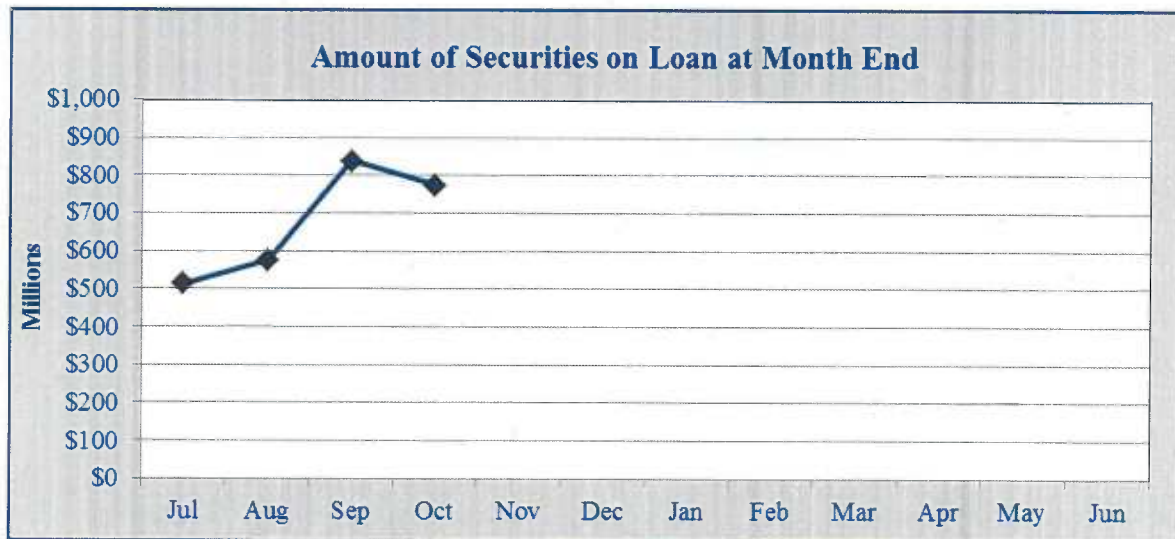


**SECURITIES LENDING INFORMATION**  
 October 31, 2014



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>Monthly*</b>	\$21	\$27	\$34	\$37								
<b>FYTD*</b>	\$21	\$49	\$82	\$119								

\*Amounts in Thousands



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>Monthly*</b>	\$515	\$577	\$840	\$775								

\*Amounts in Millions

Bank of New York Mellon is the securities lending agent for the City.