

TREASURY OVERSIGHT COMMITTEE MINUTES
October 21st, 2011 at 10 a.m.
Room 316, City Hall

1. Call to Order and Roll Call

Ben Rosenfield, Controller, called the meeting to order at 10:02 a.m. The following Committee members were present: Joe Grazioli, Todd Rydstrom, Jose Cisneros (Treasurer) and Richard Sullivan.

2. Discussion and Action to Approve Minutes

The minutes of July 14th, 2011 were unanimously approved. There was no public comment.

3. Review of the Treasurer's Recent Investment Performance

Michelle Durgy, Chief Investment Officer, provided a review of the year to date. Items 3 and 5 (Review of the Treasurer's Recent Investment Performance the annual review of the investment policy) were called together. This included a market and economic reflection, investment policy impacts on the portfolio composition, portfolio performance and proposed changes to the Treasurer's Investment Policy in 2011 and the impact of the changes to the portfolio. The pooled funds maturity for the time periods September 30, 2010 and September 30, 2011 were also reviewed as well as the County pooled fund statistics.

The market and economic reflection compared yield curves from October 18, 2010 – October 18, 2011. There was a downturn in yield based on activities affecting the 10-year note. These activities included QE2 disappointments in 2010, a sharp increase in commodity prices, Japan disasters (the earthquake, a tsunami and nuclear scares), S & P placing the U.S. rating to a negative outlook, Eurozone concerns that overshadowed the U.S. debt ceiling debate, downgrade, and volatility rising sharply. On October 23, 2011, a European Summit will focus on the debt crises and financial stability. There was also the market anticipation of Operation Twist which focused on the possibility of the Fed letting shorter term maturities roll off with purchases in the 10-year area. Instead, Operation Twist was aggressively implemented. The goal was to increase market activity when then causes an artificial inflation of mortgages and housing prices.

At this time, there is no value in holding cash. Yields are down.

Ms. Duggan reviewed the Investment Policy impacts on the City's portfolio composition. They are as follows:

1. Federal Policy – maximum allocation was raised from 60% to 70%;
2. State and Government Agency Obligations – 2nd highest ratings by 2 Nationally Recognized Statistical Ratings Organizations and California credits excluded from rating criteria;
3. Public Time Deposits/Negotiable CDs/CP/Money Market Funds – new credit requirements;
4. Medium Term Notes – 15% allocation and new credit requirements.

The pooled fund as of September 30, 2010 and for the same period ending September 30, 2011 was discussed. In 2010, the Treasurer's Office developed the new credit analysis process with PFM. In 2011, 93% of the portfolio is in federal and government securities. There has not been any substantial change in the pooled fund, just diversification of each security type.

CCSF earned income yield and related indices for the period from October 2010 – September 2011 were reviewed.

There are proposed changes to the Investment Policy. Two of the changes are considered "significant":

1. Authorized broker-dealer criteria and process change; and,
2. Public time deposits – raise capital limits to resemble Basel III standards.

"Minor" proposed changes are:

1. Restatement of Government Code Section 53646;
2. Restatement of titles for certain permitted investments;
3. Clarification of issuer limits and issue limits; and
4. Explicit reference to Yankee CDs

Tom Owen, Deputy City Attorney, noted that no action could be taken in proposed changes to the Investment Policy because it wasn't put on the agenda. The Committee members asked that another meeting be scheduled with the specific goal of approving the proposed changes to the Investment Policy.

Factors affecting the forecast/yield projection include:

1. **TEMPORARY LIQUIDITY GUARANTEE PROGRAM** – is currently 15% of the portfolio; will be 0% by December 21, 2012;
2. **Declining yields across the curve** – 3-month yields 8 basis points lower versus 2 years ago; 2-year yields 70 basis points lower versus 2 years ago; and, 5-year yields 136 basis points versus 2 years ago.
3. **Higher yields = riskier assets**

There are three investment goals for 2012. The goals are:

1. **Maintain Safety** – add U.S. Treasuries selectively, maintain current duration range, limit credit risk exposure, and limit call risk exposure.
2. **Maintain Liquidity** (≤ 12 months) above 25% of maturity distribution
3. **Seek out opportunities** – market anomalies and new security types, overreactions to economic news

There was no public comment.

4. Review of Projected Pooled Cash Balance

Mr. Levenson reviewed the City's month-end pooled cash balance as of (get the date) There is \$4.5 billion dollars in pooled cash. Key points included a review of the month-end pooled balances, month-to-month cash balance changes, and a review of General Fund sources and uses. There are no big negative surprises and no major costs affecting cash flow overall.

There was no public comment.

5. Public Comment

There was no public comment.

The meeting was adjourned at 10:45 a.m.