



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL

10300 TORRE AVENUE • CUPERTINO, CA 95014-3255

TELEPHONE: (408) 777-3227 www.cupertino.org

AUDIT COMMITTEE STAFF REPORT

Meeting: April 23, 2019

Subject

Treasurer's Investment Report for period ending March 31, 2019

Recommended Action

Accept staff report and provide recommendations as necessary and appropriate.

Discussion

Background

The City retained Chandler Asset Management (Chandler) through a formal Request for Proposal (RFP) process in 2018. Chandler began the on-boarding process with staff in the winter of 2018. This process comprised multiple meetings with City staff to determine an investment structure and strategy. Using an assumption of 2% compound annualized growth rate (CAGR) of 2% over the next three years and a continued 10% liquidity cushion, the initial core portfolio was estimated to total at approximately \$121 million, leaving the City with liquid funds ranging between \$13-\$20 million. Additionally, Chandler performed a comprehensive review of the City's investment policy. Although the policy was sufficient for operational purposes, significant recommended changes were made for completeness and clarification purposes. Beginning in March 2019, Chandler began forming the City's portfolio by purchasing agency (FHLB), corporate medium-term notes, and negotiable certificates of deposit.

Portfolio Report Overview

As of and for the month ending March 31, 2019, the City initiated \$18,470,475 security purchases, \$4,113,362 money market fund purchases, \$18,553,851 money market fund sales, and \$4,000,000 maturities. Ending book and market value for the portfolio were \$67,193,024 and \$66,941,241, respectively. City's additional holdings were as follows:

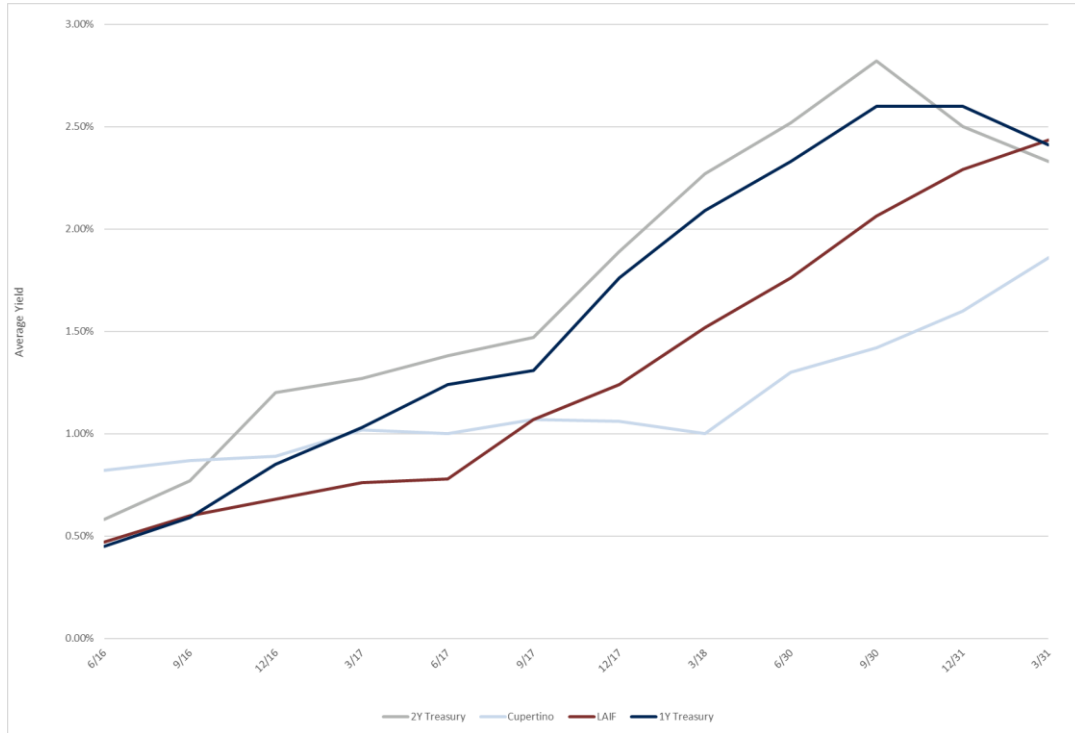
Wells Fargo – Workers Comp Checking	\$ 26,465
Wells Fargo – Regular Checking	\$ 14,436,327
LAIF State Pool	<u>\$ 56,599,596</u>
Total Cash & Cash Equivalents	\$ 71,062,388
Total Investments	<u>\$ 66,941,241</u>
TOTAL	<u>\$138,003,629</u>

Chandler will be continuing to form the desired portfolio structure relatively slowly; over a period of four to six months. Until that time, the City's portfolio will remain highly liquid in cash and cash equivalents. Below are some historical quarterly comparisons for the City's portfolio:

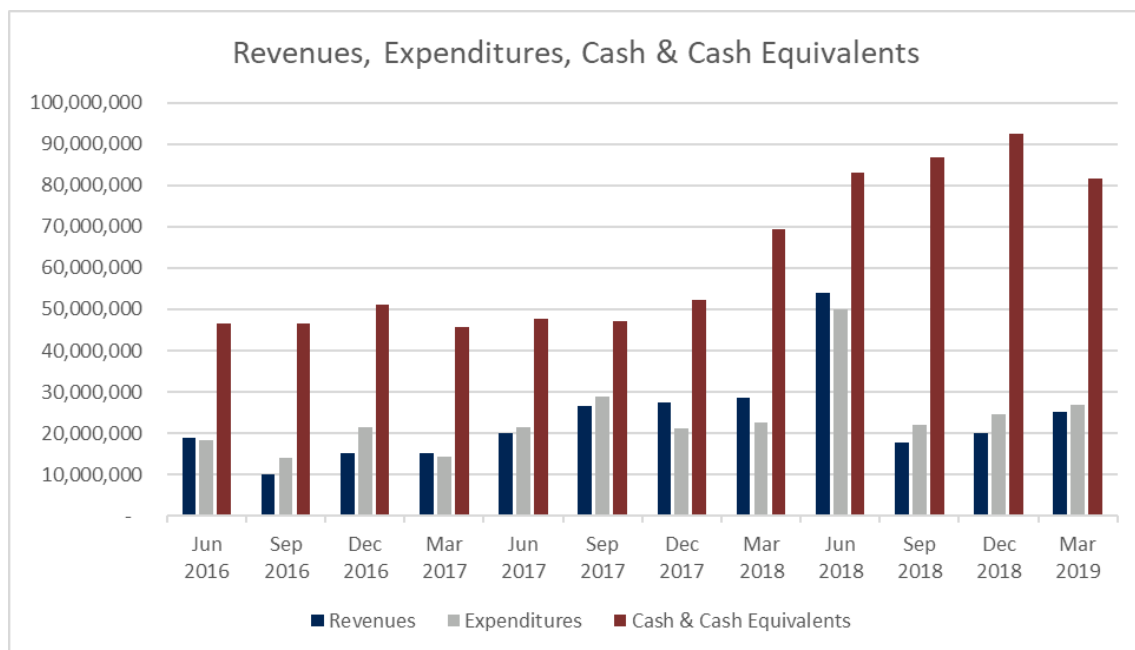
- Total portfolio increased \$0.2 million over the previous quarter from \$137.8 million to \$138.0 million
- Average maturity increased from 0.36 years to 1.34 years

- Average yield increased from 1.60% to 1.86%
- Duration increased from 0.695 to 1.25

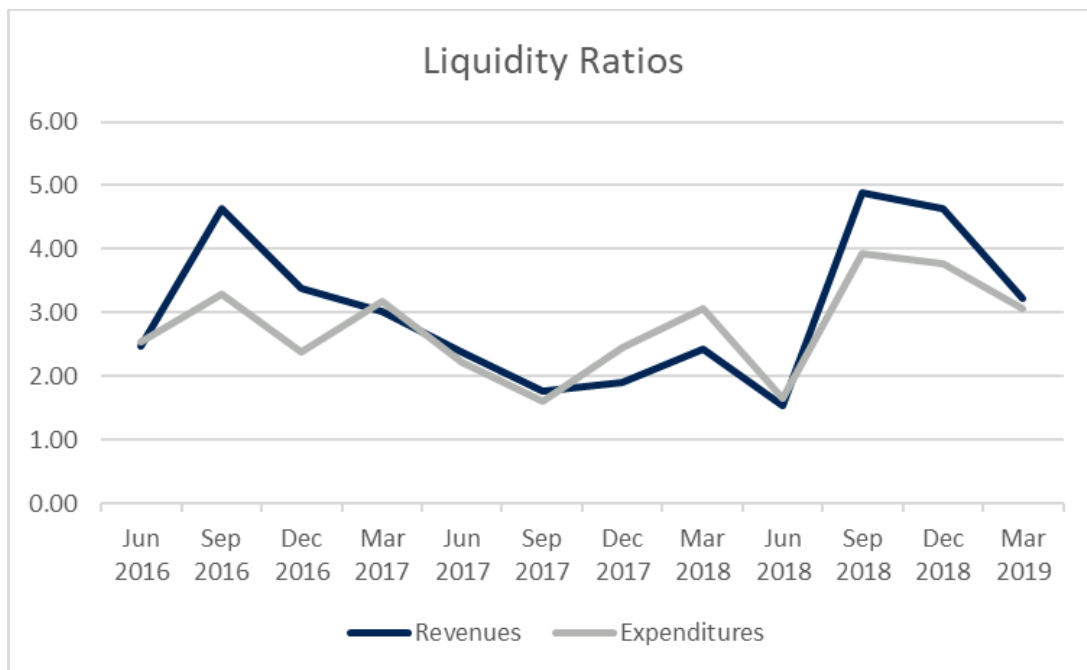
Yield comparisons for the 1Y Treasury, 2Y Treasury, LAIF, and City average are presented below:



Revenues, expenditures, and liquidity ratios are presented below:



Using three year historical trend data, the City estimates revenues (\$22.6 million) in excess of expenditures (\$21.6 million), resulting in an ending cash and cash equivalent balance of \$82.8 million for the period ending June 30, 2019.



As the City's portfolio becomes less liquid over time, the ratio of cash and cash equivalents to revenues and expenditures will continue to decrease. Once the portfolio is fully structured, the ratio will begin to provide more meaningful information in respect to the City's revenues, expenditures, and cash flows needs from one quarter to the next.

Prepared by:	Zach Korach, Finance Manager
Reviewed by:	Kristina Alfaro, Director of Administrative Services
Approved by:	Timm Borden, Interim City Manager