

# **City of Huntington Beach**

# **Quarterly Investment Report**

**June 2021**



**Prepared by:**

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## PORTFOLIO SUMMARY

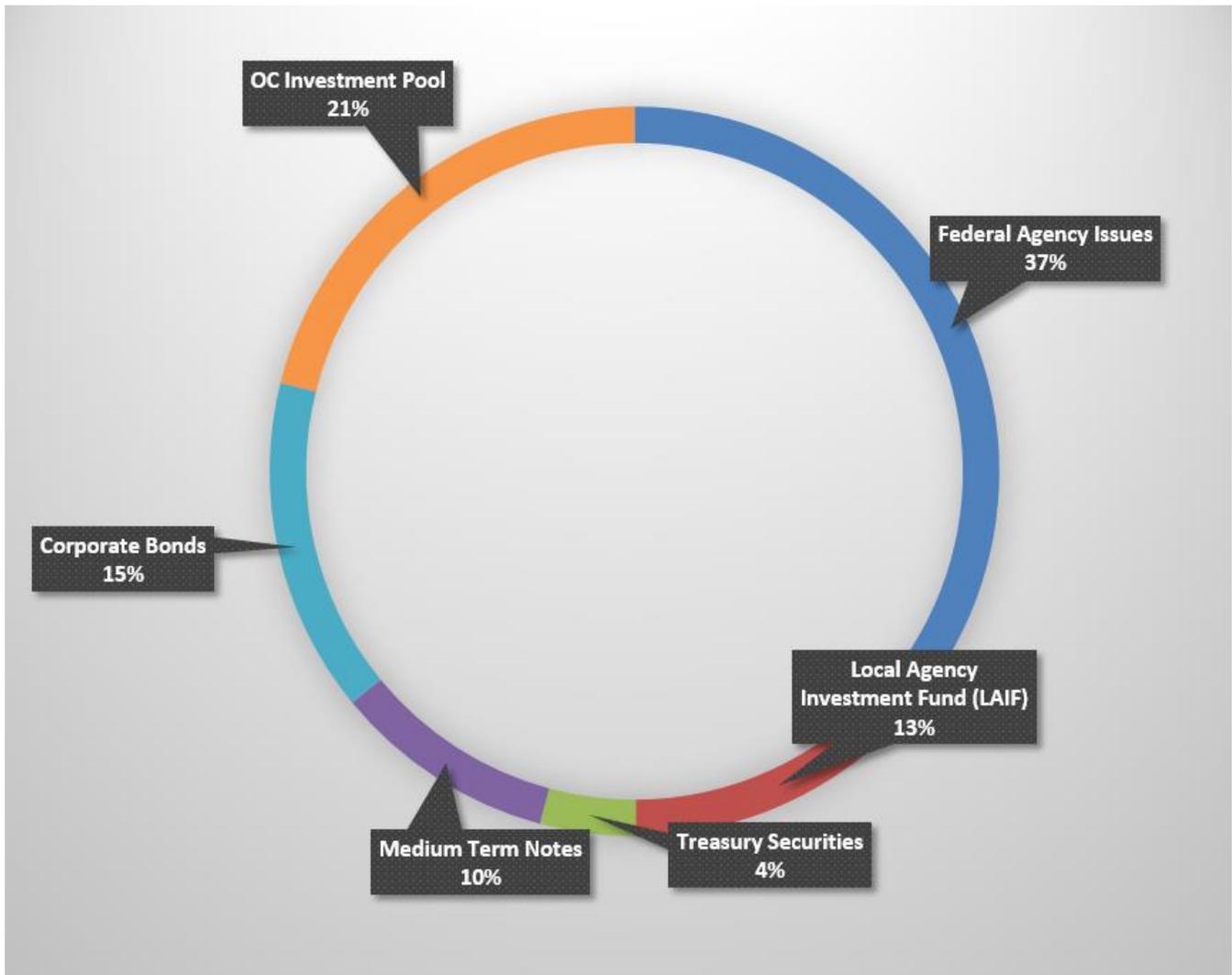
<b>AS OF: June 30, 2021</b>			
<b>Investment Type</b>	<b>Market Value</b>	<b>Book Value</b>	<b>% of Portfolio</b>
<b>\$ in 000's</b>			
Federal Agency Issues	\$ 113,064	\$ 112,065	36.5%
Local Agency Investment Fund (LAIF)	\$ 41,627	\$ 41,627	13.5%
Treasury Securities	\$ 13,128	\$ 12,908	4.2%
Medium Term Notes	\$ 30,616	\$ 30,331	9.9%
Corporate Bonds	\$ 45,968	\$ 45,073	14.7%
OC Investment Pool	\$ 65,336	\$ 65,336	21.2%
<b>TOTAL</b>	<b>\$ 309,739</b>	<b>\$ 307,340</b>	<b>100%</b>

As of June 30, 2021, the market value of the portfolio was higher than the book value of the portfolio at \$309.7 million versus \$307.3 million, respectively. This was due to the overall decrease in market interest rates in the first half of the year, which served to increase the prices (value) of some of the existing securities in the portfolio purchased prior to the downturn in rates.

Currently, funds within this portfolio are invested in federal agency securities, corporate bonds, the International Bank of Reconstruction and Development (“IBRD”), the Inter-American Development Bank (“IADB”), U.S. Treasury Securities, the State of California’s pooled account (Local Agency Investment Fund “LAIF”), and the Orange County Investment Pool (“OCIP”). Only the investment types allowed under California Government Code Section 56301 and the City’s Investment Policy Statement are utilized.

The largest holding by security type at month-end was federal agency securities at approximately 37% of the total overall portfolio. This was followed by the Orange County Investment Pool at 21% of the total portfolio as of June 30. Due to the decrease in market interest rates, some Federal Agencies within the portfolio were called. Over the past year, rates within the LAIF and OCIP accounts have moved down more slowly than the market overall. As such, additional cash has been maintained in these pooled accounts to obtain a higher yield (with overnight liquidity). However, as the yield on these pooled portfolios has been moving toward market rates, funds above and beyond the city’s established liquidity minimums will be invested in other investment types where appropriate.

**PORTFOLIO BREAKOUT BY TYPE – BOOK VALUE**  
**% of Total Portfolio**



**PORTFOLIO EARNINGS**

<b>AS OF: June 30, 2021</b>		
<b>Total Earnings</b>	<b>Month: June</b>	<b>Fiscal YTD</b>
Current Year	\$ 274,009	\$ 3,430,150
Current Budget	\$ 100,000	\$ 1,900,000
Last Year Actual	\$ 385,980	\$ 5,062,272
Average Daily Balance	\$ 299,541,338	\$ 243,328,717
Effective Rate of Return	1.11%	1.41%
Benchmark *	0.13%	n/a

\* 12-month moving average of interpolated 1.5-year treasury

Earnings for the month of June 2021 were \$274,009, a decrease of 40% from the same month in the prior year. This was due to the sharp downturn in interest rates that occurred over 2020.

To put this downturn into context, the 2-year U.S. Treasury yield at the beginning of 2020 was 1.58%, versus 0.11% at the beginning of 2021. Fiscal year-to-date earnings of \$3,430,150 were down from the same period during the previous year by 47%. In the first half of 2021, the 2-year U.S. Treasury yield has been consolidating in a range between 0.09% - 0.28%, thus it was expected that we have seen a decrease in earnings and yield as bonds are called, and as new funds must be invested at the current lower rates.

The effective rate of return for the month was 1.11%, with a fiscal year-to-date return of 1.41%. As the Federal Reserve has kept rates near zero throughout most of the year, the benchmark rate fell accordingly. The benchmark of the 12-month moving average of the interpolated 1.5-year U.S. Treasury was 0.13% at the end of June. As the portfolio maintains securities purchased when rates were higher, the rate of return will fall more slowly than that of the benchmark.

## PORTFOLIO ACTIVITY: MONTH - JUNE

<b>MONTHLY ACTIVITY: June 2021</b>		
<b>Investment Type \$ in 000's</b>	<b>Purchases/ Deposits</b>	<b>Calls/Maturities/ Withdrawals</b>
Federal Agency Issues	\$ 34,970	\$ 5,000
Local Agency Investment Fund (LAIF) *		\$ 19,000
Medium Term Notes - IADB/IBRD		
Corporate Bonds		
Treasury Securities		
OC Investment Pool *	\$ 35	(a) \$ 3
<b>TOTAL</b>	<b>\$ 35,005</b>	<b>\$ 24,003</b>

\*Includes Interest Income  
(a) Admin Fee

## PORTFOLIO ACTIVITY: QUARTER

<b>QUARTERLY ACTIVITY: April 1 to June 30, 2021</b>		
<b>Investment Type \$ in 000's</b>	<b>Purchases/ Deposits</b>	<b>Calls/Maturities/ Withdrawals</b>
Federal Agency Issues	\$ 53,000	\$ 5,000
Local Agency Investment Fund (LAIF) *	\$ 21,042	\$ 19,000
Medium Term Notes - IADB/IBRD	\$ 10,000	
Corporate Bonds	\$ 3,809	\$ 5,000
Treasury Securities	\$ 5,000	
OC Investment Pool *	\$ 117	(a) \$ 10
<b>TOTAL</b>	<b>\$ 92,968</b>	<b>\$ 29,010</b>

\*Includes Interest Income  
(a) Admin Fee

## COMPLIANCE

The portfolio is in conformity with all relevant State regulations and the City's Investment Policy statement as approved by the City Council on February 1, 2021. The investment program herein shown provides sufficient cash flow liquidity to meet the next six months' obligations.

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO/ MAXIMUM PER ISSUER	MINIMUM QUALITY REQUIREMENTS	IN COMPLIANCE
Commercial Paper	270 days	25%/10%	A1, "A" Rating	YES
State Obligations-- CA And Others	5 years	None/10%	"A" Rating	YES
U.S. Treasury Obligations	5 years	None	None	YES
U.S. Government Agency Obligations	5 years	None	None	YES
IBRD, IFC, IADB	5 years	10%	"AA" Rating	YES
Corporate Notes	5 years	30%/10%	"A" Rating	YES
Local Agency Investment Fund (LAIF)	N/A	Up to \$75,000,000	None	YES
Orange County Investment Pool (OCIP)	N/A	Up to \$75,000,000	None	YES
Maximum Maturities	No more than 50% of portfolio maturing over 4 years.			YES

## SUPPLEMENTAL INFORMATION

### ADDITIONAL ACCOUNT BALANCES:

<i>Market Values:</i>	Ending Balance 3/31/2021
<b>Total Deferred Compensation Plan Balances</b>	<b>\$177,920,129</b>
<b>CalPERS Retiree Medical Trust Account</b>	<b>\$34,571,100</b>
<b>US Bank Supplemental Pension Trust Account</b>	<b>\$70,798,622</b>
<b>PARS Post Employment Benefits 115 Trust Account</b>	<b>\$9,895,133</b>
<b>Bond Reserve Accounts</b>	<b>\$6,949,000</b>

(Due to delay in statement receipt, amounts are from previous quarter end)

- 1) CalPERS OPEB CERBT Account: This account provides for post-retirement medical insurance for eligible retirees. As of the most recent Actuarial Valuation Report, the funded status of the Total OPEB liability was 90%. The fund is managed by CalPERS and had a net rate of return as of 6/30/20 of 5.45%.
- 2) Supplemental Pension Trust: This is a defined benefit retirement plan for employees hired prior to 1997 and is a closed plan. The funds are managed by U.S. Bank according to the investment policy established by the Supplemental Pension Board. As of the most recent Actuarial Valuation Report of 6/30/19, the plan was approximately 90% funded.
- 3) PARS 115 Trust: On May 2, 2016, the City Council authorized the City's participation in a tax-exempt, IRS Section 115 Trust to enhance paying down the City's unfunded

liabilities. Such funds are maintained through the Public Agency Retirement Services Pension Rate Stabilization Program (PARS PRSP) and are legally restricted for use in administering the City’s defined benefit pension plan. In June of 2021, the City deposited an additional \$1,000,000 into this account.

- 4) Bond Reserve Accounts: These are reserve accounts required by the City’s various bond agreements. Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy.

## ECONOMIC AND MARKET OVERVIEW

<b>MARKET SUMMARY: MARCH 31, 2021 - JUNE 30, 2021</b>					
<b>As of:</b>	<b>Fed Funds Rate</b>	<b>2-Yr. Treasury</b>	<b>10-Yr. Treasury</b>	<b>S&amp;P 500</b>	<b>DJIA</b>
<b>3/31/2021</b>	<b>0.00 - 0.25 %</b>	<b>0.16%</b>	<b>1.74%</b>	<b>\$ 3,972.89</b>	<b>\$ 32,981.55</b>
<b>6/30/2021</b>	<b>0.00 - 0.25 %</b>	<b>0.25%</b>	<b>1.45%</b>	<b>\$ 4,297.50</b>	<b>\$ 34,502.51</b>
<b>% Change</b>	<b>none</b>	<b>56.25%</b>	<b>-16.67%</b>	<b>8.17%</b>	<b>4.61%</b>

The Federal Open Market Committee (FOMC) met in June to discuss the current state of the economy and to examine potential future interest rate adjustments. They concluded that vaccinations have reduced the spread of COVID-19 in the United States. Additionally, they highlighted that the sectors most adversely affected by the pandemic remain weak but have shown improvement. They stated, “Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.”

Fixed Income / Equity Markets: The yield on the 10-year U.S. Treasury finished the quarter at 1.45%, down from 1.74% from the end of the previous quarter, for a 16.67% decrease quarter-over-quarter. The S&P 500 and DJIA increased by 8.17% and 4.61% respectively, over the same period.

Employment: Total nonfarm payroll employment rose by 850,000 in June, and the unemployment rate was little changed at 5.9 percent. Notable job gains occurred in leisure and hospitality, public and private education, professional and business services, retail trade, and other services.

- 2Yr Tsy
- 5Yr Tsy
- 10Yr Tsy

## Treasury Rates Monthly Averages

