

TREASURY OVERSIGHT COMMITTEE MINUTES

January 27th, 2012 at 10 a.m.

Room 316, City Hall

1. Call to Order and Roll Call

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

2. Discussion and Action to Approve Minutes

The approval of the minutes of the October 21st, 2011 meeting was tabled until the next meeting. There was no public comment.

3. Review of the Treasurer's Recent Investment Performance

Brian Starr provided the economic overview. He reviewed the Gross Domestic Product (GDP) growth (in terms of actual and International Monetary Fund forecasts): the United States shows signs of slow economic recovery while Europe lags. The ability to issue debt at low rates allows large fiscal deficits and aids the recovery. The Federal Reserve has been very active about promoting a positive monetary policy by keeping interest rates low. Expectations of low growth and low inflation continue to weigh on bond yields.

Michelle Durgy, Chief Investment Officer) provided the market overview. In terms of U.S. Treasury yields, the bulk of the City's assets are in the 4-5 year range as well as in the "under a year" range. There is a lot of pressure which is pushing yields down. The good news is in short term interest rates. There is value in negotiable CDs, commercial paper, bankers acceptances (to an extent) and the London Interbank Offered Rate (LIBOR) securities. Given the City's policies and conservative investments, Ms. Durgy expressed her opinion that, in the current environment, the focus should be on quality, low European exposure and due diligence.

County pooled statistics reflect yields - relative to other local government pools across the nation - are starting to chart a little bit higher. The reason for this is that they have a shorter weighted average maturity than CCSF. This is also true of their cash flow. The equity balances and percentage of funds held by various CCSF entities in pooled funds was reviewed.

Ms. Durgy reviewed the 5-year pooled fund asset allocation history and reminded the Committee that the Temporary Liquidity Guarantee Program (TLGP) program expires at the end of 2012.

As of January 25th, 2012, the City's portfolio allocation is as follows: 1) federal agencies (67.9%); 2) TLGP (11.9%); 3) credit (10.6%); 4) U.S. Treasuries (8.8%); 5) state and local agency government obligations (0.7%); and 6) public time deposits (0.01%).

Credit value investments, with the least amount of risk, were reviewed. Floaters (debt security whose value increases as interest rates rise) were discussed from the perspective of hedging and diversification. Ms. Durgy explained that with floaters, there is a direct price/yield relationship rather than the usual inverse price yield. Hedging is a diversification tool against fixed rate debt. clarify this more)

The portfolio strategy, as of the time of this meeting, is as follows:

1. Short-term: shorten the duration while assessing current and future volatility in cash flows.
2. Long-term: extend the duration by matching maturities with project fund draw schedules. This would be dependent on liquidity needs and market conditions.
3. Ongoing: selectively add credit

Factors affecting the forecast/yield projections are as follows:

1. TLGP: 12% of the portfolio; will be 0% by December 31, 2012. The weighted average yield-to-maturity is 1.48%.
2. Declining yields across the curve: a) 3-month yields 8 basis points lower versus two years ago; +3 basis points vs. last meeting; b) 2-year yields 70 basis points lower versus two years ago; -9 basis points vs. last meeting; and , c) 5 –year yields 136 basis points lower versus two years ago; -41 basis points vs. last meeting.
3. Higher yields = higher assets

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 (January 26, 2012). 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. Discussion of transition of SF Redevelopment Agency Debt into Treasurer's Pool.

Ms. Marx, Deputy, and Mr. Cisneros, Treasurer, clarified that this matter refers to the transfer \$6+million dollars in unrated Redevelopment Agency Bonds. It specifically refers to the South Beach Harbor Letter of Credit regarding non-rated investments that are not in compliance. This is an information items that requires no action from the Committee.

Mr. Rydstrom also requested an update on GAAP requirements.

There was no public comment.

6. Public Comment

There was public comment from Nadia Sesay of the Controller's Office of Public Finance. Ms. Sesay thanked the Treasurer's Office for facilitating the Redevelopment Agency's transaction.

The meeting was adjourned at 11:05 a.m.