

TREASURY OVERSIGHT COMMITTEE MINUTES
October 29, 2010 at 10 a.m.
Room 316, City Hall

1. Call to Order and Roll Call

Ben Rosenfield, Controller, called the meeting to order at 10:05 a.m. The following Committee members were present: Joe Grazioli, Don Griffin, Todd Rydstrom and Richard Sullivan.

Jose Cisneros, Treasurer, introduced Michelle Durgy. Ms. Durgy replaces Newlin Rankin as the Chief Investment Officer for the Treasurer's Office.

2. Discussion and Action to Approve Minutes

The minutes of July 23, 2010 were unanimously approved. There was no public comment.

3. Review of the Treasurer's Recent Investment Performance

Ms. Michelle Durgy, Chief Investment Officer, and Pauline Marx, Chief Assistant Treasurer, provided an overview of the investment markets. The asset allocation five year history was reviewed as was the par value of all funds for the period ending September 30, 2010.

Ms. Marx reviewed the pooled fund assets as of September 30, 2010 which is \$4.1 billion, including cash. There have not been any substantial changes since the Committee met in July 2010. Many of the pooled fund assets will mature in the next six months.

The Committee discussed the use of the County Pool Relative Return as a way to observe peer performance in addition to other benchmarks. Mr. Rosenfield asked that the current peer comparison be kept as a benchmark. The extended recovery is exemplified by lower long-term rates. The yields are lower across the Treasury curve (July 23, 2010 and October 28, 2010). A historical credit events timeline was also discussed.

Mr. Cisneros expressed his opinion that the market is low and staying low for the foreseeable future. At the same time the market is low, it is also going through a number of continuing evolution of changes. There has been a number of crises over the past couple of years. The portfolio has been adjusted in response to the things that have happened: the City has pulled back from commercial paper, has stayed shorter and safer with regard to the portfolio. However; the economy is continuing to evolve

and change. Some parts of the economy are showing strength. As a result, Mr. Cisneros said the investment group wants to make sure it is responding appropriately to serve the best purposes of the portfolio and the city.

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 October 29th, 2010. At this time, there is \$4.1 billion dollars. 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 was no public comment.

5. Annual Review of Investment Policy

Mr. Cisneros noted that a number of changes have been made to the process of evaluating and updating the Investment Policy. As presented at a previous meeting, PFM Asset Management has been hired to assist the Treasurer's Department with additional tools and resources that have not been available in the past.

A new Chief Investment Officer, Michelle Durgy, has recently been hired. One of the areas of focus will be the ability to broaden and diversify the holdings of the portfolio. At the present time, the portfolio is very narrowly focused. The safety, liquidity and increased yield of the portfolio are all considerations.

The Summaries of Changes to the 2011 Investment Policy, Part A, is attached to the minutes due to the number of updates. Changes to Part A are noted in red. There was extensive discussion regarding keeping the Local Agency Investment Fund (LAIF). The document was amended to keep LAIF, which was originally slated to be removed.

Mr. Rydstrom asked how Section 13 (Social Responsibility) is being analyzed, assessed and reported by PFM to the Treasurer. Mr. Cisneros responded that the primary considerations are safety, liquidity, and then yield. In the event all things are equal, Ms. Durgy will take the eligible list (negotiable CDs, Treasury Notes, etc.) and apply the Social Responsibility filter.

Mr. Rydstrom asked if, given the new processes, the investment universe becomes more restrictive because of the extra layer of Social Responsibility. Mr. Cisneros responded that he's never seen the Social Responsibility filter limit investment opportunities dramatically. He expressed his opinion that the filter steers the investor among equally beneficial opportunities.

Mr. Rydstrom asked whether, given the safety, liquidity and yield thresholds for prudence, should the same criteria be set for the state and local obligations be AA- or

greater so that there is parity. Mr. Cisneros responded in agreement but said the issue could also be brought back to the Committee in the future should there be opportunities or changes that warrant consideration. The question is how flexible the pool participants want the Policy to be and related considerations. Timeliness and capping the amounts are also considerations. This item will be brought back to the next meeting, scheduled for January 2011.

Part B will be reviewed at the next meeting. A summary description of the Independent Credit Review Process is described on page 7 of Part A.

Mr. Rydstrom made a motion to approve the recommendations noted in Part A (including keeping LAIF), and restitution of state exposure in local and state obligation be AA- or better for any non state of California issues (page 1 of Part A). The motion was seconded by Mr. Grazioli and approved by the Committee.

6. Public Comment

There was no public comment.

The meeting was adjourned at 11:30 a.m.