

TREASURY OVERSIGHT COMMITTEE MINUTES

Friday, October 17, 2008, 10 a.m.

Room 316, City Hall

1. Call to Order and Roll Call

Mr. Rosenfield, Controller, called the meeting to order at 10:08. All committee members were present.

2. Election of new Committee Chairperson

Mr. Rosenfield was elected as Chairman by the Committee.

3. Discussion and Action to Approve Minutes

The minutes of January 18, 2008 were unanimously approved.

4. Financial Market Update

Mr. Newlin Rankin, Chief Investment Officer, reviewed recent activity in the market, clarified key terms and financial policies. The Committee discussed how the current financial market events are affecting the CCSF portfolio.

Mr. Rankin reviewed current assets owned by the portfolio, assets by security type, pool participants and the runoff of maturities.

5. Review of the Treasurer's Recent Investment Performance

Regarding safety, Mr. Rankin reported that recent events in the financial markets have strengthened our non-Treasury positions. These include the purchase by the US Government of 79.9% of Fannie Mae (1%), Freddie Mac (15%) and AIG and its subsidiary International Lease Finance (6%). All of the Commercial Paper purchased by CCSF is rated at A-1/P-1 at this time, and all other bond types are rated AAA/Aaa.

In terms of liquidity, Mr. Rankin reported that since CCSF does not generally sell bonds before their maturity date, this is a minor issue. Lack of liquidity makes some sectors more attractive, as borrowers have to offer higher yields and others need to raise cash.

Mr. Rankin said US Treasury rates are very low, but other sectors, such as US Agencies offer attractive relative yield. Twenty-five percent of the portfolio is invested in Agency Floaters whose coupons are tied to LIBOR rates. These bonds currently pay a coupon of 4.2 – 4.5%, a very good yield, considering that the 5-year Treasury Note pays only 2.80%.

No Public Comment

6. Annual Review of Investment Policy

Mr. David Augustine provided the Committee with an update of the City and County of San Francisco's Investment Policy, dated October 2008, for their review. In summary, the differences between the September 2007 and October 2008 Investment Policies are that the CP maturity was extended to 270 days, maturity constraints on Agency debt were eased, we expanded the definition of acceptable collateral in the Public Demand Deposit market, we can now invest in LAIF, and now enjoy greater access to the Municipal bond market.

Specifically, the maturity limit for Commercial Paper was extended from 180 to 270 days, and a new 25% maximum portfolio weight limit was imposed.

A constraint setting the Weighted Average Maturity (WAM) of Fannie Mae and Freddie Mac bonds to 270 days if Agency bonds exceeded 30% of the portfolio was lifted. The portfolio retains the maximum Agency exposure constraint of 60%. As always, no maturity of any bond may exceed 5 years.

The 270 day WAM constraint was maintained for the following Agencies with the addition of specific maximum portfolio weight limits.

<u>Agency</u>	<u>Max % of Portfolio</u>
Federal Home Loan Bank	30
Federal Farm Credit Bank	30
Federal Agricultural Mortgage Association	10
Resolution Trust Funding Corporation	5
Tennessee Valley Authority	10

Because the FDIC limit on deposits was raised from \$100,000 per account to \$250,000, the Policy now states that deposits "will be insured...up to the current deposit insurance limit."

Acceptable collateral of Public Demand Deposits (aka "Collateralized CD's") remain in compliance with 53651(a) - (i), with Mortgage Backed collateral now an acceptable security.

Under this section, the text "Eligible Mortgage Collateral, per California Government Code Section 53651 (m) that is equal to or exceeds 150% of the daily ledger balance." was deleted.

A new section 7.15 was added, stating "Investments in LAIF, a California state investment fund available to California municipalities, are authorized.

DRAFT

Section 7.14 "Investments in State and Local Agencies: added the following language: "Appropriate investments also include bonds of any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a state department, board, agency, or local authority. These instruments may comprise 20% or less of the portfolio at the time of purchase."

The Committee reviewed the Policy and suggested several modifications.

Mr. Rydstrom moved that the updated October 2008 City and County of San Francisco's Investment Policy be adopted with the modifications discussed included. Mr. Sullivan seconded. The motion passed unanimously.

No Public Comment

7. Discussion of Annual Audit

Mr. Jose Cisneros, Treasurer, noted that a responsibility of the Treasury Oversight Committee, per Investment Policy Section 14.o, is to "Cause an annual audit to be conducted to determine the Treasurer's compliance with California Government Code Article 6, including Sections 27130 – 27137 and City Administrative Code Sections 10.80.1..." The audit process was discussed.

Mr. Rydstrom moved that the annual audit be conducted. Mr. Graziola seconded. The motion passed unanimously.

8. General Public Comment

No Public Comment

9. Adjournment

The meeting adjourned at 11:35 a.m.