

TREASURY OVERSIGHT COMMITTEE MINUTES
October 19, 2012 at 10 a.m.
Room 316, City Hall

1. Call to Order and Roll Call

Leo Levenson (delegate for Ben Rosenfield, Controller) called the meeting to order at 10 a.m. The following Committee members were present: Joe Grazioli, Peter Goldstein and Richard Sullivan. Todd Rydstrom joined the meeting late. Ben Rosenfield, Controller, was excused.

2. Discussion and Action to Approve Minutes

The minutes from the meeting on July 27, 2012 were unanimously approved. There was no public comment.

3. Review of the Treasurer's Recent Investment Performance

Michelle Durgy, Chief Investment Officer, reviewed the following topics: 1) an economic overview; 2) market overview; 3) Pooled Fund review; 4) liquidity strategy; 5) the investment policy; and 6) September 2012 monthly report. Items 3 and 5 (Review of the Treasurer's Recent Investment Performance and the Annual Review of the Investment Policy) were combined.

Economic Overview: The Gross Domestic Product (GDP) growth forecasts have dropped considerably in the past 6 months. Growth has been slower than expected in both the U.S. and Euro areas. The monthly change in non-farm payrolls shows that unemployment is still a big factor and more jobs are needed. The trend in construction, as a percentage of GDP is upward. The challenge continues to be in non-residential spending in construction. The government's spending in the non-residential area is constrained by the upcoming fiscal cliff. Rates for the 10 -Year U.S. Treasury Note continue to go lower. The expectation is for modest gains in the future.

Market Overview: The year-over-year yield curve is flattening. In the past, there were benefits to going out to the 5-year range. At this time, the benefits aren't as great for investing in this area. Ms. Durgy said that money has been moved and the duration is shorter. There have been blips in the 3 month, 6 month and one year yields with the result that although the Treasury Department no longer has securities to sell

in this area, yields are expected to rise. Basis point jumps were reviewed as well as the 50 basis point decline in the 5-year yields.

At the September meeting, the 5 year U.S. Treasury volatility was discussed. The team is purchasing these securities when the yields go up into the 75 basis point range.

Ms. Durgy discussed short-term rates for U.S. Treasury bills as they may affect the Investment Policy. At this time, U.S. Treasury bills are in the 10 basis point range. Agencies aren't adding significant value over Treasuries. As a result, the Treasurer's Office has been buying more treasury bills.

In regard to cash balances, Ms. Durgy said that 27 basis points have been earned. The Money Market funds are earning 0.01- 20% basis points. Repurchase agreements (0-3 months, general loan and collateral agreement) are yielding 0.21% - 0.27%. Commercial paper (0-3 months) is earning 0.15% - 0.35% basis points.

The County pooled statistics chart (a comparison of San Francisco's weighted average maturity/earned income yield to other local agencies) reflects different cash flows, portfolio sizes and investment policies. The statistics reflect San Francisco's yield as it compares to others. The County of Sonoma recently extended quite a bit. Fresno has a large corporate portfolio which drives up their yield. They have more of a corporate exposure than San Francisco. Pooled balances were reviewed.

The Local Government Investment Pool (LGIP) reflects investments in very short periods of time (3 months). San Francisco is going out a bit further which usually translates to a higher yield.

Pooled fund participants were reviewed with some discussion about the equity balances as a percentage of the fund. The San Francisco Public Utilities Commission (PUC) currently has the largest stake with 33.8% of their equity balance in the pooled fund. Facilities and Capital Funds (General) have 16.5% of their equity balance in the pooled fund. The total pooled fund is \$5,115,216,236 dollars.

Strategies for managing Transaction Account Guarantee (TAG) expiration on 12/31/2012: At this time, the City is earning 27 basis points in its portfolio because TAG investments. The money in the account is covered by government guaranteed insurance. There is daily access and liquidity. The earnings credit goes toward the bank fees. It has been a very attractive investment.

The TAG program expires at the end of the year. The government guarantee on unlimited funds is expected to be rescinded. The amount of funds in the program (from among peers and other groups) may be as high as \$3 trillion dollars.

Investment alternatives were discussed. Alternatives include repurchase agreements, overnight commercial paper and money market funds.

There were questions from Committee members Levenson, Goldstein and Sullivan in response to Ms. Durgy's discussion about Repurchase Agreements. She clarified the differences between collateralized deposits as compared to repurchase agreements. Some of the benefits of Repurchase Agreements include: the exchange of temporary ownership of collateral, transparency, collateral control, flexibility and higher yields to comparable collateral-type investments.

Investment Policy Review

The Investment Policy is updated annually. Ms. Durgy reviewed and responded to questions from Committee members about the revisions. Revisions were recommended for the following sections:

- 7.0 Authorized and Suitable Investments (downgrade of language)
- 7.2 Federal Agencies
- 7.3 Temporary Liquidity Guarantee Program (TLGP)
- 7.4 State and Local Government Agency Obligations
- 7.6 Negotiable Certificates of Deposit/Yankee Certificates of Deposit
- 7.8 Commercial Paper
- 7.10 Repurchase Agreements

There was no public comment.

4. Review of Pooled Cash Balance

Mr. Levenson reviewed the City's month-end pooled cash balance as of October 19, 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. Public Comment

There was no public comment.

6. Change in Committee Membership

Richard Sullivan, Citizen at Large, announced his retirement from the Committee as of the close of the meeting today. Mr. Sullivan has served on the Committee for 15 years. Mr. Levenson and the Committee thanked Mr. Sullivan for his years of service and many contributions.

The meeting adjourned at 10:50 a.m.