



To: First 5 Alameda County Executive Committee

From: Rebecca Gebhart, Finance and Administration Director

Date: March 20, 2009

Subject: Investment Report: July 1, 2008 – February 28, 2009

REQUESTED ACTION

To review and give direction for changes or clarifications in preparation for presentation to the Commission at their meeting on March 26, 2009

BACKGROUND

The Investment Report shows the performance of funds that are invested in the Alameda County pool and with two outside money managers: MBIA Municipal Investors and Chandler Asset Management.

- At 2007-08 year-end, the market value of the funds with MBIA and Chandler was \$38,227,901.
- As of February 28, 2009, the market value of the funds with MBIA and Chandler was \$39,157,855, an increase since the beginning of the fiscal year of \$1,406,743.

INVESTMENT REPORT

There were numerous changes in the portfolio in January and February.

In January, Chandler Asset Management (CAM) made a number of sales and purchases that reflect the change in the Investment Policy made in late June 2008. In that policy revision, the restriction of the percentage of federal government agency instruments was eliminated. CAM determined that it was advantageous to sell Treasuries for realized gains, and to purchase agencies. The yields of the agencies purchased are similar to the yields of the treasury notes sold.

In addition, the CAM average duration was short, and several sales were made of instruments with maturity dates of 2010 and 2011. CAM then purchased similar instruments with longer durations, such as 2012 and 2013. For example, a JP Morgan

Chase instrument with a maturity date of 6/1/11 was sold and another JP Morgan Chase instrument purchased with a maturity date of 5/01/13.

Finally, several holdings were sold by CAM due to concerns about decreasing or poor credit quality. These holdings included Abbott Labs and Morgan Stanley Dean Witter.

In February, CAM sold American General Finance, an instrument that has been on watch since fall of 2008 and is owned by AIG. The cost was \$174,951 and the selling price was \$85,500, incurred a long term capital loss of \$89,451. The loss for the period of January and February was offset by all of the gains made by strategic sales.

MBIA Municipal Investors has informed us that they are putting two instruments on watch. One is a \$175,000 Household Finance instrument that matures in October 2011. It is owned by HSBC, Europe's largest bank and one considered "too large to fail". The rating is on a downward trend but the MBIA recommendation is to hold it until maturity. If sold now, it would realize a loss of \$30,000 - \$40,000. The second instrument on watch is a \$1 million General Electric instrument that matures October 2012. It is anticipated to be downgraded although as of last week it was still AAA. The recommendation is to try to hold until maturity. A sale now would incur a significant loss.

Investment Income

The first section reports on Investment Income, which is primarily determined by the interest or yield payments. For each asset, the payments are received every six months. Our money managers are purchasing assets that generate the highest possible yield, based on our Investment Policy.

The report represents eight months (July 1, 2008 – February 28, 2009) of the money managers' investment earnings (\$1,190,819), earnings from interest on our funds at Union Bank (\$9,238), and earnings from the Alameda County investment pool (\$135,098,). The earnings from the Alameda County pool are through December 31, 2008. Total earnings received are \$1,335,155.

The reversal of the accrual occurs each year. These are funds received in the first quarter that were actually earned, and thus credited, to the prior quarter. They were recognized as revenue in 2007-08 (\$417,881) so must be deducted from the funds recognized for the first quarter. This makes the report look very low in this period, but this is a typical occurrence. It is important to note that the 2008-09 earnings will include much of the first quarter's earnings of 2009-2010.

The total Investment income after the reversal of the accrual was \$917,273.

Investment Fees

Fees include eight months' worth of fees of the money managers (MBIA and Chandler) and the fees of the account custodian (Union Bank of California). The total fees paid during this period were \$33,400.

Investment Activity

The Investment Activity shows all transactions affecting our portfolio.

Market Value and Unrealized Gains and Losses

This section reports on Market Value. It shows the value of the portfolio at the beginning of the period, and the value of the portfolio at the end of the period. It is a snapshot of portfolio value, if the portfolio was liquidated. Since the portfolio is not being liquidated, this section is of limited value. However, showing unrealized gains and losses on investment reports is a legal requirement for government agencies.

Yield Benchmarks

The Yield section shows the yield of the investment earnings, and compares those amounts to several benchmarks. In addition, the yield helps to evaluate the money manager performance compared to each other. MBIA and Chandler's yields (4.190% and 4.160%, respectively) have exceeded the LAIF benchmark (2.545%).

Only the Alameda County Treasury Investment Pool is net of fees.

FISCAL IMPACT

The total investment earnings through February 28th are \$917,273.

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Submitted by:

Reviewed by:

Rebecca Gebhart, Director
Finance & Administration

Mark Friedman,
Chief Executive Officer