



To: First 5 Alameda County Executive Committee

From: Patricia Zapanta, Acting Finance and Administration Director

Date: June 19, 2009

Subject: Investment Report: July 1, 2008 – May 31, 2009

REQUESTED ACTION

To review the Investment report for July 1, 2009 – May 31, 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 May 31, 2009, the market value of the funds with MBIA and Chandler was \$40,289,312, an increase since the beginning of the fiscal year of \$2,061,411.

PORTFOLIO HIGHLIGHTS

When Proposition 1D was put on the ballot initiative earlier this year, we requested our money managers to suspend purchases to preserve our cash flow just in case the ballot measure passed. In May when the Proposition 1D failed, our money managers resumed purchasing investments on our behalf.

Recent indicators tentatively show that the pace of economic decline is moderating and this slow growth will remain during the remaining quarters of 2009. MBIA's investment strategy is to stay conservative and continue being highly defensive by attempting to maintain ample cash while trying to be very selective to add yield when possible. Chandler, on the other hand, will attempt to realign the portfolio up to the desired duration, structure and asset allocation compliant with our investment strategy.

Some of our assets are on rating watch to notify us that a rating change is imminent and is likely to occur in the next one to three months. They are: 1. Household Finance which is owned by HSBC, Europe's largest bank, 2. Berkshire Hathaway, a conglomerate holding company chaired by Warren Buffet. Its core business is insurance, 3. Wachovia Bank which is owned by Wells Fargo Bank is on potential sale and 4. a \$1 million General Electric note which has been downgraded from AAA to AA2. Our money managers are doing their best to be strategic with regards to selling these assets and are always mindful of our goals of safety, liquidity and yield.

INVESTMENT REPORT

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.

The report represents eleven months (July 1, 2008 – May 31, 2009) of the money managers' investment earnings (\$1,585,322), earnings from interest on our funds at Union Bank (\$9,238), and earnings from the Alameda County investment pool (\$186,135). Total earnings received are \$1,780,695.

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 \$1,362,814.

Investment Fees

Fees include eleven 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 \$43,848.

Investment Activity

The Investment Activity shows all transactions affecting our portfolio. It is important to note that despite the \$89,451 loss from the sale of American General Finance in January 2009, we have maintained a net gain of \$225,656 due to strategic sales by our money managers during 2009.

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 (3.770% and 3.900%, respectively) have exceeded the LAIF benchmark (1.916%).

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

FISCAL IMPACT

The total investment earnings through May 31st are \$1,362,814.

RECOMMENDATION

To review the Investment report for July 1, 2009 – May 31, 2009.

Submitted by:

Reviewed by:

Patricia Zapanta, Acting Director
Finance & Administration

Mark Friedman,
Chief Executive Officer

**First 5 Alameda County
Investment Report
For the Period July 1 - May 31, 2009**

| | <u>Union Bank</u> | <u>MBIA Municipal Investors</u> | <u>Chandler Asset Management</u> | <u>Total</u> |
|--|-----------------------|---|--|-------------------|
| INVESTMENT INCOME: | | | | |
| Interest Received | 9,238 | 935,921 | 649,401 | 1,594,560 |
| Income from Alameda County Treasurer | | | | 186,135 |
| Reversal of 2007-08 Accrual | | | | (417,881) |
| Total Investment Earnings | | | | <u>1,362,814</u> |
| Investment Fees Paid | (5,893) | (19,610) | (18,345) | (43,848) |
| Net Investment Income (Net of Fees) | | | | <u>1,318,965</u> |
| INVESTMENT ACTIVITY: | | | | |
| Portfolios at 7/01/08 | | 21,834,156 | 15,917,262 | 37,751,418 |
| Purchases | | 6,772,081 | 10,135,621 | 16,907,702 |
| Sales | | (929,661) | (7,809,965) | (8,739,625) |
| Maturities | | (5,464,261) | (1,749,904) | (7,214,165) |
| Full Call | | (2,451,706) | (351,873) | (2,803,578) |
| Principal Pay Down | | (44,040) | (30,612) | (74,652) |
| Gain (Loss) on Disposal | | 10,814 | 214,842 | 225,656 |
| Net Cash Management | | 3,050,300 | 435,103 | 3,485,403 |
| Portfolios at 5/31/09 | | <u>22,777,684</u> | <u>16,760,475</u> | <u>39,538,159</u> |
| COST VS. MARKET VALUE: | | | | |
| Portfolios at Market 5/31/09 | | 23,224,934 | 17,064,378 | 40,289,312 |
| Portfolios at Cost 5/31/09 | | 22,777,684 | 16,760,475 | 39,538,159 |
| Unrealized Gain (Loss) at 5/31/09 | | <u>447,250</u> | <u>303,903</u> | <u>751,154</u> |
| YIELD AND BENCHMARKS: | | | | |
| MBIA Municipal Investors (Current yield) | | | | 3.770% |
| Chandler Asset Management (Current yield) | | | | 3.900% |
| Local Agency Investment Fund (LAIF) as of 3/31/09 | | | | 1.916% |
| 1-5 Government Index (Total rate of return) | | | | 6.410% |
| Alameda County Treasurer (net of fees) as of 3/31/09 | | | | 2.130% |

**First 5 Alameda County
Investment Holdings Report
As of May 31, 2009**

| <u>Holder</u> | <u>Asset Name</u> | <u>Shares / Units</u> | <u>Cost Basis</u> | <u>Market Value</u> | <u>Asset Type</u> | <u>S&P Rating</u> | <u>Moody's Rating</u> |
|---------------|-------------------------------------|-----------------------|-------------------|---------------------|-------------------------|-----------------------|-----------------------|
| CHANDLER | BERKSHIRE HATHAWAY 4.125% 1/15/10 | 325,000.00 | \$332,689.50 | \$331,444.75 | Corporate Obligations | AAA | AA2 |
| CHANDLER | BK OF AMERICA BDS 3.125% 6/15/12 | 335,000.00 | \$347,518.95 | \$347,518.95 | Corporate Obligations | AAA | AAA |
| MBIA | BOFA CORP NTS 7.400% 1/15/11 | 300,000.00 | \$321,864.00 | \$306,096.00 | Corporate Obligations | A- | A3 |
| MBIA | FFCB 6.750% 7/07/09 | 900,000.00 | \$957,825.00 | \$905,904.00 | Government Obligations | AAA | AAA |
| MBIA | FFCB BDS 3.000% 12/19/11 | 1,000,000.00 | \$1,000,000.00 | \$1,000,630.00 | Government Obligations | AAA | AAA |
| CHANDLER | FFCB BDS 3.750% 12/06/10 | 425,000.00 | \$443,090.98 | \$443,062.50 | Government Obligations | AAA | AAA |
| CHANDLER | FFCB BDS 4.500% 10/17/12 | 150,000.00 | \$154,407.00 | \$161,907.00 | Government Obligations | AAA | AAA |
| CHANDLER | FFCB BDS 4.875% 2/18/11 | 600,000.00 | \$640,033.80 | \$639,378.00 | Government Obligations | AAA | AAA |
| MBIA | FFCB BDS 4.875% 4/04/12 | 1,000,000.00 | \$1,027,780.00 | \$1,087,810.00 | Government Obligations | AAA | AAA |
| MBIA | FFCB BDS 5.000% 8/16/10 | 1,000,000.00 | \$1,033,580.00 | \$1,050,940.00 | Government Obligations | AAA | AAA |
| CHANDLER | FFCB BDS 5.375% 7/18/11 | 450,000.00 | \$488,335.95 | \$488,250.00 | Government Obligations | AAA | AAA |
| CHANDLER | FHLB 3.875% 6/14/13 | 250,000.00 | \$247,290.00 | \$263,515.00 | Government Obligations | AAA | AAA |
| MBIA | FHLB BDS 3.250% 3/11/11 | 2,000,000.00 | \$2,001,040.00 | \$2,078,120.00 | Government Obligations | AAA | AAA |
| MBIA | FHLB BDS 3.375% 10/06/10 | 1,000,000.00 | \$999,687.50 | \$1,008,750.00 | Government Obligations | AAA | AAA |
| CHANDLER | FHLB BDS 3.625% 5/29/13 | 350,000.00 | \$342,595.40 | \$365,641.50 | Government Obligations | AAA | AAA |
| CHANDLER | FHLB BDS 3.750% 8/18/09 | 225,000.00 | \$229,341.83 | \$226,687.50 | Government Obligations | AAA | AAA |
| MBIA | FHLB BDS 3.875% 1/15/10 | 1,500,000.00 | \$1,513,860.00 | \$1,530,465.00 | Government Obligations | AAA | AAA |
| CHANDLER | FHLB BDS 4.625% 2/18/11 | 500,000.00 | \$531,331.00 | \$530,780.00 | Government Obligations | AAA | AAA |
| CHANDLER | FHLB BDS 4.875% 11/18/11 | 325,000.00 | \$350,857.65 | \$350,899.25 | Government Obligations | AAA | AAA |
| CHANDLER | FHLMC 4.500% 7/15/13 | 675,000.00 | \$711,770.50 | \$728,156.25 | Government Obligations | AAA | AAA |
| CHANDLER | FHLMC NTS 3.250% 2/25/11 | 150,000.00 | \$151,762.50 | \$155,484.00 | Government Obligations | AAA | AAA |
| MBIA | FHLMC NTS 4.375% 3/01/10 | 1,000,000.00 | \$1,011,030.00 | \$1,027,120.00 | Government Obligations | AAA | AAA |
| CHANDLER | FHLMC NTS 4.500% 1/15/13 | 395,000.00 | \$402,816.49 | \$426,600.00 | Government Obligations | AAA | AAA |
| CHANDLER | FHLMC NTS 4.750% 3/05/12 | 275,000.00 | \$298,979.45 | \$298,289.75 | Government Obligations | AAA | AAA |
| CHANDLER | FHLMC NTS 5.125% 4/18/11 | 200,000.00 | \$210,335.20 | \$214,812.00 | Government Obligations | AAA | AAA |
| MBIA | FHLMC NTS 5.125% 10/23/12 | 1,000,000.00 | \$1,015,030.00 | \$1,017,770.00 | Government Obligations | AAA | AAA |
| CHANDLER | FNMA NOTES 3.875% 7/12/13 | 425,000.00 | \$427,212.95 | \$448,774.50 | Government Obligations | AAA | AAA |
| CHANDLER | FNMA NTS 3.625% 2/12/13 | 150,000.00 | \$148,160.85 | \$158,203.50 | Government Obligations | AAA | AAA |
| CHANDLER | FNMA NTS 3.625% 8/15/11 | 400,000.00 | \$419,114.80 | \$420,752.00 | Government Obligations | AAA | AAA |
| MBIA | FNMA NTS 4.000% 8/26/11 | 500,000.00 | \$505,150.00 | \$504,065.00 | Government Obligations | AAA | AAA |
| CHANDLER | FNMA NTS 5.000% 2/16/12 | 500,000.00 | \$546,647.50 | \$545,470.00 | Government Obligations | AAA | AAA |
| CHANDLER | FNMA NTS 6.000% 5/15/11 | 235,000.00 | \$241,803.25 | \$257,325.00 | Government Obligations | AAA | AAA |
| MBIA | FNMA NTS 6.000% 5/15/11 | 850,000.00 | \$895,636.50 | \$930,750.00 | Government Obligations | AAA | AAA |
| MBIA | G E CAP CORP MTN 5.250% 10/19/12 | 1,000,000.00 | \$1,029,100.00 | \$1,012,760.00 | Corporate Obligations | AA+ | AA2 |
| CHANDLER | GE CAPITAL CORP FDIC DC/P 6/17/09 | 400,000.00 | \$399,750.00 | \$399,952.00 | Cash & Cash Equivalents | | |
| CHANDLER | GECC NTS 4.875% 10/21/10 | 175,000.00 | \$179,284.00 | \$178,617.25 | Corporate Obligations | AA+ | AA2 |
| CHANDLER | GECC NTS 5.875% 2/15/12 | 100,000.00 | \$101,505.00 | \$102,757.00 | Corporate Obligations | AA+ | AA2 |
| CHANDLER | GECC NTS 6.000% 6/15/12 | 180,000.00 | \$182,665.80 | \$187,876.80 | Corporate Obligations | AA+ | AA2 |
| CHANDLER | GEN ELEC CAP CO NTS 3.000% 12/09/11 | 335,000.00 | \$346,748.45 | \$346,788.65 | Corporate Obligations | AAA | AAA |
| CHANDLER | GENL DYNAMICS CORP 4.500% 8/15/10 | 160,000.00 | \$163,561.60 | \$166,200.00 | Corporate Obligations | A | A2 |
| CHANDLER | GNR 2004-61-VA 5.000% 5/16/10 | 33,780.59 | \$33,379.43 | \$34,364.32 | Government Obligations | N/A | N/A |
| CHANDLER | GOLDMAN SACHS 6.875% 1/15/11 | 50,000.00 | \$52,615.50 | \$52,742.00 | Corporate Obligations | A | A1 |

**First 5 Alameda County
Investment Holdings Report
As of May 31, 2009**

| <u>Holder</u> | <u>Asset Name</u> | <u>Shares / Units</u> | <u>Cost Basis</u> | <u>Market Value</u> | <u>Asset Type</u> | <u>S&P Rating</u> | <u>Moody's Rating</u> |
|---------------|-------------------------------------|-----------------------|-------------------|---------------------|-------------------------|-----------------------|-----------------------|
| MBIA | GOLDMAN SACHS 6.875% 1/15/11 | 120,000.00 | \$125,967.60 | \$126,580.80 | Corporate Obligations | A | A1 |
| CHANDLER | GOLDMAN SACHS GR BDS 3.250% 6/15/12 | 330,000.00 | \$331,884.30 | \$343,840.20 | Corporate Obligations | AAA | AAA |
| CHANDLER | HIGHMARK 100% US TREASURY MONEY MKT | 959,560.06 | \$959,560.06 | \$959,560.06 | Cash & Cash Equivalents | | |
| MBIA | HIGHMARK 100% US TREASURY MONEY MKT | 3,116,727.15 | \$3,116,727.15 | \$3,116,727.15 | Cash & Cash Equivalents | | |
| MBIA | HOUSEHOLD FIN NT 6.375% 10/15/11 | 175,000.00 | \$182,155.75 | \$177,031.75 | Corporate Obligations | A | A3 |
| CHANDLER | IBM 4.250% 9/15/09 | 175,000.00 | \$174,478.50 | \$176,669.50 | Corporate Obligations | A+ | A1 |
| CHANDLER | JPMORGAN CHASE & CO 2.125% 6/22/12 | 340,000.00 | \$342,363.00 | \$342,992.00 | Corporate Obligations | AAA | AAA |
| CHANDLER | JPMORGAN CHASE & CO 4.750% 5/01/13 | 170,000.00 | \$171,691.50 | \$174,799.10 | Corporate Obligations | A+ | AA3 |
| MBIA | NATL CTY BK KEN NTS 6.300% 2/15/11 | 125,000.00 | \$128,517.50 | \$122,911.25 | Corporate Obligations | A | A2 |
| CHANDLER | PHILLIPS PETE 8.750% 5/25/10 | 145,000.00 | \$159,990.10 | \$154,955.70 | Corporate Obligations | A | A1 |
| CHANDLER | TARGET CORP 6.350% 1/15/11 | 175,000.00 | \$178,776.50 | \$187,276.25 | Corporate Obligations | A+ | A2 |
| CHANDLER | TENN VY AUTH SER A 6.790% 5/23/12 | 640,000.00 | \$700,943.70 | \$726,937.60 | Government Obligations | AAA | AAA |
| CHANDLER | TOYOTA MTR CR CORP 5.450% 5/18/11 | 160,000.00 | \$167,360.00 | \$165,436.80 | Corporate Obligations | AA | AA1 |
| CHANDLER | TVA SER C 4.750% 8/01/13 | 600,000.00 | \$638,422.85 | \$639,846.00 | Government Obligations | AAA | AAA |
| CHANDLER | U S TREAS NTS 3.375% 11/30/12 | 450,000.00 | \$451,371.09 | \$477,810.00 | Government Obligations | AAA | AAA |
| CHANDLER | U S TREAS NTS 3.500% 2/15/10 | 450,000.00 | \$453,128.91 | \$459,810.00 | Government Obligations | AAA | AAA |
| MBIA | U S TREAS NTS 3.625% 7/15/09 | 2,100,000.00 | \$2,041,648.44 | \$2,108,694.00 | Government Obligations | AAA | AAA |
| CHANDLER | U S TREAS NTS 4.750% 3/31/11 | 200,000.00 | \$197,492.19 | \$214,290.00 | Government Obligations | AAA | AAA |
| MBIA | U S TREAS NTS 4.750% 3/31/11 | 1,370,000.00 | \$1,358,147.67 | \$1,467,886.50 | Government Obligations | AAA | AAA |
| CHANDLER | UNITED TECH CORP 6.500% 6/01/09 | 160,000.00 | \$166,355.20 | \$160,000.00 | Corporate Obligations | A | A2 |
| CHANDLER | US TREAS NTS 3.625% 10/31/09 | 450,000.00 | \$453,726.56 | \$456,151.50 | Government Obligations | AAA | AAA |
| CHANDLER | US TREAS NTS 4.000% 9/30/09 | 625,000.00 | \$646,093.75 | \$632,737.50 | Government Obligations | AAA | AAA |
| CHANDLER | US TREAS NTS 4.375% 12/15/10 | 300,000.00 | \$310,417.97 | \$316,734.00 | Government Obligations | AAA | AAA |
| CHANDLER | US TREAS NTS 4.500% 4/30/12 | 300,000.00 | \$298,804.69 | \$327,069.00 | Government Obligations | AAA | AAA |
| MBIA | US TREAS NTS 4.500% 11/15/10 | 925,000.00 | \$931,250.97 | \$976,060.00 | Government Obligations | AAA | AAA |
| CHANDLER | US TREAS NTS 4.750% 5/31/12 | 400,000.00 | \$395,937.51 | \$439,752.00 | Government Obligations | AAA | AAA |
| MBIA | US TREAS NTS 4.875% 7/31/11 | 550,000.00 | \$556,412.10 | \$596,062.50 | Government Obligations | AAA | AAA |
| MBIA | US TREAS NTS 5.000% 2/15/11 | 1,000,000.00 | \$1,025,273.44 | \$1,071,800.00 | Government Obligations | AAA | AAA |
| CHANDLER | WACHOVIA CORP BDS 5.500% 5/01/13 | 175,000.00 | \$183,659.00 | \$178,291.75 | Corporate Obligations | AA | A1 |
| CHANDLER | WAL-MART STORES 4.125% 7/01/10 | 250,000.00 | \$252,412.50 | \$257,170.00 | Corporate Obligations | AA | AA2 |

Please see next page for Investment rating scales

**First 5 Alameda County
Investment Holdings Report
As of May 31, 2009**

Long Term Issuer Credit Rating Definitions

| S&P | Moody's | Fitch |
|------|---------|-------|
| AAA | Aaa | AAA |
| AA+ | Aa1 | AA+ |
| AA | Aa2 | AA |
| AA- | Aa3 | AA- |
| A+ | A1 | A+ |
| A | A2 | A |
| A- | A3 | A- |
| BBB+ | Baa1 | BBB+ |
| BBB | Baa2 | BBB |
| BBB- | Baa3 | BBB- |
| BB+ | Ba1 | BB+ |
| BB | Ba2 | BB |
| BB- | Ba3 | BB- |
| B+ | B1 | B+ |
| B | B2 | B |
| B- | B3 | B- |
| CCC+ | Caa1 | CCC+ |
| CCC | Caa2 | CCC |
| CCC- | Caa3 | CCC- |
| CC | Ca | CC |
| C | C | C |
| D | | DDD |
| | | DD |
| | | D |

Investment Grade

Investment Grade

Below Investment Grade

Below Investment Grade

Rating Outlook - An outlook indicates the direction a rating is likely to move over a one or two year period. A specific rating outlook does not imply a rating change is inevitable. Outlooks are classified as 'Stable', 'Positive', 'Negative', or 'Developing'.

Rating Watch - Ratings are placed on 'Rating Watch' to notify investors that a rating change is imminent and is likely to occur in the next one to three months. Watches are classified as 'Stable', 'Positive', 'Negative', or 'Developing'.