



**To: First 5 Alameda County Executive Committee**

**From: Patricia Zapanta, Finance and Administration Director**

**Date: September 18, 2009**

**Subject: 2008-09 Year-end Investment Report  
July 1, 2008 – June 30, 2009**

---

#### **REQUESTED ACTION**

To review the Investment report and to give feedback on clarifications or changes in preparation for presentation to the Commission on September 24th

#### **BACKGROUND OF ACTIVITIES**

In 2005-06, First 5 Alameda County transferred \$34,000,000 from the Sustainability Fund held by the Alameda County Treasurer's investment pool to three outside money managers. This report is a summary of the activity and status of the investment portfolio as of June 30, 2009. This is the third full year that First 5 Alameda County has a large portion of the portfolio with outside money managers. The current market value of the portfolio is \$40,283,900.

#### **PORTFOLIO HIGHLIGHTS**

In 2008-09, First 5 Alameda County experienced the first full year of activities with new money managers MBIA Asset Management and Chandler Asset Management who specialize in managing funds for government agencies. This is a positive collaboration as we not only incurred significantly lower fees than the original money managers but also excellent customer service and stable portfolio results as the recessionary environment continues.

When Proposition 1D was put on the May 19<sup>th</sup> special election ballot 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.

During 2008-09, we also amended our Investment Policy to include TLGP (Temporary Liquidity Guarantee Program) note issues insured by FDIC (Federal Deposit Insurance

Corporation), per the policy guidelines. Finally, for the 2008-09 annual audit, we prepared the Investment disclosure per the guidelines prescribed by GASB 40.

Due to recent indicators, it seems that the economic recovery will be slow and the unemployment rate is likely to continue to increase. This uniquely challenging economic environment may affect the future performance of the portfolio. First 5 Alameda County Finance staff and money managers are monitoring all developments and the money managers provide regular updates and recommendations.

## **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. This is the most important part of the report. Our money managers are purchasing assets that generate the highest possible yield, based on our Investment Policy.

The report represents twelve months (July 1, 2008 – June 30, 2009) of the money managers' investment earnings (\$1,680,628) and half year's income from our sweep account (\$9,238), plus four quarters of the Alameda County Treasurer's Office earnings (\$217,450).

Total Investment Income (net of all transactions except fees) is \$1,907,316. Investment Income net of fees is \$1,857,310. The Net Investment Income is \$411,157 less compared to last year's total, which was \$2,268,467. Despite the decreased income because of the current tumultuous economic situation, First 5 Alameda's portfolio performance remained stable mainly due to our money managers' creativity, flexibility and adherence to our investment policy.

### **Investment Fees**

Fees include one year's 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 \$50,006. These fees are still much lower compared to last year's fees of \$60,046 wherein we incurred the transition to our new money managers and in contrast to 2006-07 when we paid \$140,736 in investment fees. The huge savings is attributable to the lower fee structure of our money managers.

### **Alameda County Investment Pool Income**

The Alameda County Investment income in 2008-09 is \$217,450, compared to \$509,897 in the prior year. The report contains four quarters of Alameda County Treasury investment pool income. This income is net of Alameda County fees. (Alameda County always posts interest earnings net of fees and we have been unable to determine the amount of the fees.)

**Investment Activity**

The Investment Activity shows all transactions affecting our portfolio. When a money manager purchases assets, it increases the value of the portfolio. When a money manager sells an asset, it decreases the total portfolio value and increases or decreases investment earnings depending on the value of the asset at the time of the sale.

It is important to note that we incurred a net gain of \$208,972 from the disposal of some of our assets. This is encouraging because this gain was helpful in defraying some of the expenditures as First 5 Alameda experiences its second year of dipping into the Sustainability Fund.

Consistent with our Investment Policy Section XIII.2 Reporting Requirements “The report shall include an appendix that discloses all transactions during the past quarter” we have included the list of investment transactions.

**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.

**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. The benchmarks are:

- o Alameda County Treasury Investment Pool
- o Local Agency Investment Fund (LAIF)
- o 1-5 Government Index

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

**FISCAL IMPACT**

The total investment earnings at year-end are \$1,907,316. The budget for the 2008-09 Investment earnings line item was \$1,637,500, which exceeds the budget projections by \$269,816.

Submitted by:

Reviewed by:

---

Patricia Zapanta, Director  
Finance & Administration

---

Mark Friedman,  
Chief Executive Officer

**First 5 Alameda County  
Investment Report  
For the Period July 1, 2008 - June 30, 2009**

	<u>Union Bank</u>	<u>MBIA Municipal Investors</u>	<u>Chandler Asset Management</u>	<u>Total</u>
<b>INVESTMENT INCOME:</b>				
Interest Received	9,238	1,217,939	880,571	2,107,747
Income from Alameda County Treasurer				217,450
Reversal of 2007-08 Accrual				(417,881)
Total Investment Earnings				<u>1,907,316</u>
Investment Fees Paid	(6,345)	(23,594)	(20,067)	(50,006)
Net Investment Income (Net of Fees)				<u>1,857,310</u>
<b>INVESTMENT ACTIVITY:</b>				
Portfolios at 7/01/08		21,834,156	15,917,262	37,751,418
Purchases		9,758,047	13,615,172	23,373,219
Sales		(929,661)	(10,180,209)	(11,109,870)
Maturities		(5,464,261)	(2,316,009)	(7,780,270)
Full Call		(3,451,706)	(351,873)	(3,803,578)
Principal Pay Down		(44,040)	(33,465)	(77,505)
Gain (Loss) on Disposal		10,814	198,158	208,972
Net Cash Management		1,066,025	(33,825)	1,032,200
Portfolios at 6/30/09		<u>22,779,375</u>	<u>16,815,211</u>	<u>39,594,587</u>
<b>COST VS. MARKET VALUE:</b>				
Portfolios at Market 6/30/09		23,204,415	17,079,485	40,283,900
Portfolios at Cost 6/30/09		22,779,375	16,815,212	39,594,587
Unrealized Gain (Loss) at 6/30/09		<u>425,040</u>	<u>264,273</u>	<u>689,313</u>
<b>YIELD AND BENCHMARKS:</b>				
MBIA Municipal Investors (Current yield)				3.860%
Chandler Asset Management (Current yield)				3.810%
Local Agency Investment Fund (LAIF) as of 6/30/09				1.513%
1-5 Government Index (Total rate of return)				4.890%
Alameda County Treasurer (net of fees) as of 6/30/09				1.630%

**First 5 Alameda County  
Investment Holdings Report  
As of June 30, 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&amp;P Rating</u>	<u>Moody's Rating</u>
CHANDLER	BERKSHIRE HATHAWAY 4.125% 1/15/10	325,000.00	\$332,689.50	\$330,824.00	Corporate Obligations	AAA	AA2
CHANDLER	BK OF AMERICA BDS 3.125% 6/15/12	335,000.00	\$347,518.95	\$345,502.25	Corporate Obligations	AAA	AAA
MBIA	BOFA CORP NTS 7.400% 1/15/11	300,000.00	\$321,864.00	\$307,971.00	Corporate Obligations	A-	A3
MBIA	FFCB 6.750% 7/07/09	900,000.00	\$957,825.00	\$900,846.00	Government Obligations	AAA	AAA
CHANDLER	FFCB BDS 4.500% 10/17/12	150,000.00	\$154,407.00	\$161,437.50	Government Obligations	AAA	AAA
CHANDLER	FFCB BDS 4.875% 2/18/11	375,000.00	\$400,021.12	\$398,205.00	Government Obligations	AAA	AAA
MBIA	FFCB BDS 4.875% 4/04/12	1,000,000.00	\$1,027,780.00	\$1,082,190.00	Government Obligations	AAA	AAA
MBIA	FFCB BDS 5.000% 8/16/10	1,000,000.00	\$1,033,580.00	\$1,048,750.00	Government Obligations	AAA	AAA
CHANDLER	FFCB BDS 5.375% 7/18/11	450,000.00	\$488,335.95	\$485,721.00	Government Obligations	AAA	AAA
MBIA	FFCB GLBL BDS 2.000% 1/17/12	1,000,000.00	\$1,003,310.00	\$1,008,130.00	Government Obligations	AAA	AAA
CHANDLER	FHLB 3.875% 6/14/13	250,000.00	\$247,290.00	\$262,187.50	Government Obligations	AAA	AAA
MBIA	FHLB BDS 1.125% 6/03/11	1,000,000.00	\$992,656.20	\$997,810.00	Government Obligations	AAA	AAA
MBIA	FHLB BDS 3.250% 3/11/11	2,000,000.00	\$2,001,040.00	\$2,073,120.00	Government Obligations	AAA	AAA
MBIA	FHLB BDS 3.375% 10/06/10	1,000,000.00	\$999,687.50	\$1,006,880.00	Government Obligations	AAA	AAA
CHANDLER	FHLB BDS 3.625% 5/29/13	350,000.00	\$342,595.40	\$364,000.00	Government Obligations	AAA	AAA
MBIA	FHLB BDS 3.875% 1/15/10	1,500,000.00	\$1,513,860.00	\$1,528,125.00	Government Obligations	AAA	AAA
CHANDLER	FHLB BDS 4.625% 2/18/11	500,000.00	\$531,331.00	\$529,065.00	Government Obligations	AAA	AAA
CHANDLER	FHLB BDS 4.875% 11/18/11	325,000.00	\$350,857.65	\$350,593.75	Government Obligations	AAA	AAA
CHANDLER	FHLMC 4.500% 7/15/13	675,000.00	\$711,770.50	\$726,678.00	Government Obligations	AAA	AAA
CHANDLER	FHLMC NTS 2.500% 1/07/14	600,000.00	\$593,947.20	\$594,156.00	Government Obligations	AAA	AAA
CHANDLER	FHLMC NTS 3.250% 2/25/11	150,000.00	\$151,762.50	\$155,109.00	Government Obligations	AAA	AAA
MBIA	FHLMC NTS 4.375% 3/01/10	1,000,000.00	\$1,011,030.00	\$1,025,340.00	Government Obligations	AAA	AAA
CHANDLER	FHLMC NTS 4.500% 1/15/13	395,000.00	\$402,816.49	\$425,612.50	Government Obligations	AAA	AAA
CHANDLER	FHLMC NTS 4.750% 3/05/12	275,000.00	\$298,979.45	\$296,829.50	Government Obligations	AAA	AAA
CHANDLER	FHLMC NTS 5.125% 4/18/11	200,000.00	\$210,335.20	\$213,876.00	Government Obligations	AAA	AAA
MBIA	FHLMC NTS 5.125% 10/23/12	1,000,000.00	\$1,015,030.00	\$1,014,110.00	Government Obligations	AAA	AAA
MBIA	FHLMC NTS S/U 2.000% 4/01/14	1,000,000.00	\$990,000.00	\$997,990.00	Government Obligations	AAA	AAA
CHANDLER	FNMA NOTES 3.875% 7/12/13	425,000.00	\$427,212.95	\$447,312.50	Government Obligations	AAA	AAA
CHANDLER	FNMA NTS 2.875% 12/11/13	650,000.00	\$654,949.75	\$655,284.50	Government Obligations	AAA	AAA
CHANDLER	FNMA NTS 3.625% 2/12/13	150,000.00	\$148,160.85	\$157,734.00	Government Obligations	AAA	AAA
CHANDLER	FNMA NTS 3.625% 8/15/11	400,000.00	\$419,114.80	\$418,876.00	Government Obligations	AAA	AAA
MBIA	FNMA NTS 4.000% 8/26/11	500,000.00	\$505,150.00	\$502,655.00	Government Obligations	AAA	AAA
CHANDLER	FNMA NTS 5.000% 2/16/12	150,000.00	\$163,994.25	\$162,750.00	Government Obligations	AAA	AAA
CHANDLER	FNMA NTS 6.000% 5/15/11	235,000.00	\$241,803.25	\$255,416.80	Government Obligations	AAA	AAA
MBIA	FNMA NTS 6.000% 5/15/11	850,000.00	\$895,636.50	\$923,848.00	Government Obligations	AAA	AAA
MBIA	G E CAP CORP MTN 5.250% 10/19/12	1,000,000.00	\$1,029,100.00	\$1,027,980.00	Corporate Obligations	AA+	AA2
CHANDLER	GECC FDIC TLGP 2.125% 12/21/12	520,000.00	\$520,494.00	\$516,422.40	Corporate Obligations	AAA	AAA
CHANDLER	GECC NTS 5.875% 2/15/12	100,000.00	\$101,505.00	\$104,449.00	Corporate Obligations	AA+	AA2
CHANDLER	GECC NTS 6.000% 6/15/12	180,000.00	\$182,665.80	\$189,214.20	Corporate Obligations	AA+	AA2
CHANDLER	GENL DYNAMICS CORP 4.500% 8/15/10	160,000.00	\$163,561.60	\$165,385.60	Corporate Obligations	A	A2
CHANDLER	GNR 2004-61-VA 5.000% 5/16/10	30,893.35	\$30,526.48	\$31,359.53	Government Obligations	N/A	N/A
CHANDLER	GOLDMAN SACHS 6.875% 1/15/11	50,000.00	\$52,615.50	\$52,860.50	Corporate Obligations	A	A1
MBIA	GOLDMAN SACHS 6.875% 1/15/11	120,000.00	\$125,967.60	\$126,865.20	Corporate Obligations	A	A1

**First 5 Alameda County  
Investment Holdings Report  
As of June 30, 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&amp;P Rating</u>	<u>Moody's Rating</u>
CHANDLER	GOLDMAN SACHS GR BDS 3.250% 6/15/12	490,000.00	\$498,407.98	\$507,101.00	Corporate Obligations	AAA	AAA
CHANDLER	HIGHMARK 100% US TREASURY MONEY MKT	473,948.50	\$473,948.50	\$473,948.50	Cash & Cash Equivalents		
MBIA	HIGHMARK 100% US TREASURY MONEY MKT	1,132,452.43	\$1,132,452.43	\$1,132,452.43	Cash & Cash Equivalents		
MBIA	HOUSEHOLD FIN NT 6.375% 10/15/11	175,000.00	\$182,155.75	\$178,946.25	Corporate Obligations	A	A3
CHANDLER	IBM 4.250% 9/15/09	175,000.00	\$174,478.50	\$176,235.50	Corporate Obligations	A+	A1
CHANDLER	JPMORGAN CHASE & CO 2.125% 12/26/12	515,000.00	\$507,922.36	\$512,394.10	Corporate Obligations	AAA	AAA
CHANDLER	JPMORGAN CHASE & CO 4.750% 5/01/13	170,000.00	\$171,691.50	\$172,157.30	Corporate Obligations	A+	AA3
MBIA	NATL CTY BK KEN NTS 6.300% 2/15/11	125,000.00	\$128,517.50	\$126,501.25	Corporate Obligations	A	A2
CHANDLER	PHILLIPS PETE 8.750% 5/25/10	145,000.00	\$159,990.10	\$154,773.00	Corporate Obligations	A	A1
CHANDLER	TARGET CORP 6.350% 1/15/11	175,000.00	\$178,776.50	\$186,471.25	Corporate Obligations	A+	A2
CHANDLER	TENN VY AUTH SER A 6.790% 5/23/12	640,000.00	\$700,943.70	\$722,457.60	Government Obligations	AAA	AAA
CHANDLER	TOYOTA MTR CR CORP 5.450% 5/18/11	160,000.00	\$167,360.00	\$167,491.20	Corporate Obligations	AA	AA1
CHANDLER	TVA SER C 4.750% 8/01/13	600,000.00	\$638,422.85	\$635,724.00	Government Obligations	AAA	AAA
CHANDLER	U S TREAS NTS 3.375% 11/30/12	450,000.00	\$451,371.09	\$473,764.50	Government Obligations	AAA	AAA
CHANDLER	U S TREAS NTS 3.500% 2/15/10	450,000.00	\$453,128.91	\$458,613.00	Government Obligations	AAA	AAA
MBIA	U S TREAS NTS 3.625% 7/15/09	2,100,000.00	\$2,041,648.44	\$2,102,625.00	Government Obligations	AAA	AAA
CHANDLER	U S TREAS NTS 4.750% 3/31/11	200,000.00	\$197,492.19	\$213,180.00	Government Obligations	AAA	AAA
MBIA	U S TREAS NTS 4.750% 3/31/11	1,370,000.00	\$1,358,147.67	\$1,460,283.00	Government Obligations	AAA	AAA
CHANDLER	US BANCORP MTN 2.250% 3/13/12	510,000.00	\$516,846.75	\$514,493.10	Corporate Obligations	AAA	AAA
CHANDLER	US TREAS NTS 3.625% 10/31/09	450,000.00	\$453,726.56	\$454,959.00	Government Obligations	AAA	AAA
CHANDLER	US TREAS NTS 4.000% 9/30/09	425,000.00	\$439,343.75	\$428,969.50	Government Obligations	AAA	AAA
CHANDLER	US TREAS NTS 4.375% 12/15/10	300,000.00	\$310,417.97	\$315,690.00	Government Obligations	AAA	AAA
CHANDLER	US TREAS NTS 4.500% 4/30/12	300,000.00	\$298,804.69	\$324,657.00	Government Obligations	AAA	AAA
MBIA	US TREAS NTS 4.500% 11/15/10	925,000.00	\$931,250.97	\$972,952.00	Government Obligations	AAA	AAA
CHANDLER	US TREAS NTS 4.750% 5/31/12	400,000.00	\$395,937.51	\$436,124.00	Government Obligations	AAA	AAA
MBIA	US TREAS NTS 4.875% 7/31/11	550,000.00	\$556,412.10	\$591,635.00	Government Obligations	AAA	AAA
MBIA	US TREAS NTS 5.000% 2/15/11	1,000,000.00	\$1,025,273.44	\$1,066,410.00	Government Obligations	AAA	AAA
CHANDLER	WACHOVIA CORP BDS 5.500% 5/01/13	175,000.00	\$183,659.00	\$180,775.00	Corporate Obligations	AA-	A1
CHANDLER	WAL-MART STORES 4.125% 7/01/10	250,000.00	\$252,412.50	\$256,135.00	Corporate Obligations	AA	AA2
CHANDLER	WELLS FARGO & CO 2.125% 6/15/12	515,000.00	\$518,866.62	\$516,508.95	Corporate Obligations	AAA	AAA

*Please see next page for Investment rating scales*

**First 5 Alameda County  
Investment Holdings Report  
As of June 30, 2009**

Holder                      Asset Name                      Shares / Units                      Cost Basis                      Market Value                      Asset Type                      S&P Rating                      Moody's Rating

**Long Term Issuer Credit Rating Definitions**

S&P	Moody's	Fitch	
AAA	Aaa	AAA	Investment Grade
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+	Below Investment Grade
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	

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'.