



To: First 5 Alameda County Executive Committee
From: Patricia Zapanta, Finance and Administration Director
Date: May 21, 2010
Subject: Investment Report
July 1, 2009 – March 31, 2010

REQUESTED ACTION

To review the Investment report and to give feedback on clarifications or changes in preparation for presentation to the Commission on May 27th

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 outside money managers. This report is a summary of the activity and status of the investment portfolio as of March 31, 2010.

PORTFOLIO HIGHLIGHTS

The Investment Report shows the performance of funds that are invested in the Alameda County pool and with two money managers, Cutwater Asset Management (formerly known as MBIA Municipal Investors) and Chandler Asset Management. At 2008-09 year end, the market value of the funds with Cutwater and Chandler was \$ 40,283,900. At the end of nine months of 2009-10, the market value of the portfolio was \$41,325,167, an increase of \$1,041,267.

On May 7th, the stock market took a record plunge to almost 1,000 points and then recovered in a matter of minutes. Many experts have attributed this to investors' skepticism of Europe's efforts to contain the current debt crisis sweeping over southern European nations like Greece and Portugal as well computerized program trading glitch. Investors fear that this crisis could ripple through the global financial system, much as the meltdown in subprime mortgages did in 2007. This extreme volatility reiterates the importance of selecting and maintaining a long-term investment approach combined with stringent risk management.

A Goldman Sachs note, which was deemed questionable and was held by Cutwater, was sold recently with a gain of \$554.

Finally, as a result of the anticipated decline in Tobacco Tax revenue receipts, First 5 Alameda County is reaching a point wherein its cash inflow may be less than its projected expenses or cash outlay. It is important to be aware of the possible need to liquidate portions of our portfolio to meet our obligations and to be willing and able to react quickly if this event occurs.

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. Our money managers are purchasing assets that generate the highest possible yield, based on our Investment Policy.

The report represents nine months (July 1, 2009 – March 31, 2010) of the money managers' investment earnings (\$1,203,216) and two quarters of the Alameda County Treasurer's Office earnings (\$26,593).

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 2008-09 (\$437,901) 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 2009-10 earnings will include much of the first quarter's earnings for 2010-11.

The total Investment income after the reversal of the accrual was \$791,907.

Investment Fees

Fees include nine months' worth of fees of the money managers (Cutwater and Chandler) and the fees of the account custodian (Union Bank of California). The total fees paid during this period were \$38,411.

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, as a result of the recent economic downturn, we are currently experiencing a net gain on disposal of \$4,521 compared with last year's position at this time of

the fiscal year. In comparison, we reported \$226,302 net gain on disposal of our assets at the end of March 31, 2009.

Market Value and Unrealized Gains and Losses

This section reports on Market Value. It shows a comparison of our portfolios based on costs and market values. Cost is the original price of an asset while market value is the price at which a security is trading and could presumably be purchased or sold. This part is a snapshot of the portfolio value, if the portfolio was liquidated. Since there is a possibility of liquidating portions of our portfolio, this section is valuable in determining the worth of our assets based on current market price.

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. Cutwater and Chandler’s yields (2.830% and 3.610%, respectively) have significantly exceeded the LAIF benchmark (.560%) as of March 31, 2010.

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

FISCAL IMPACT

The total investment earnings at the end of March 2010 are \$791,907.

REQUESTED ACTION

To review the Investment report and to give feedback on clarifications or changes in preparation for presentation to the Commission on May 27th

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, 2009 - March 31, 2010**

	<u>Union Bank</u>	<u>Cutwater Asset Management</u>	<u>Chandler Asset Management</u>	<u>Total</u>
INVESTMENT INCOME:				
Interest Received	0	719,511	483,705	1,203,216
Income from Alameda County Treasurer				26,593
Reversal of 2008-09 Accrual				(437,901)
Total Investment Earnings				<u>791,907</u>
Investment Fees Paid	4,533	18,115	15,763	38,411
Net Investment Income (Net of Fees)				<u>830,318</u>
INVESTMENT ACTIVITY:				
Portfolios at 7/01/09		22,779,375	16,815,211	39,594,586
Purchases		15,282,236	4,625,767	19,908,003
Sales		(2,115,907)	(2,392,903)	(4,508,809)
Maturities		(5,524,363)	(1,520,678)	(7,045,041)
Full Call		(6,020,005)	0	(6,020,005)
Principal Pay Down		0	(26,217)	(26,217)
Gain (Loss) on Disposal		(22,260)	26,781	4,521
Net Cash Management		(905,024)	(219,935)	(1,124,958)
Portfolios at 3/31/10		<u>23,474,052</u>	<u>17,308,026</u>	<u>40,782,078</u>
COST VS. MARKET VALUE:				
Portfolios at Market 3/31/10		23,754,550	17,570,617	41,325,167
Portfolios at Cost 3/31/10		23,474,052	17,308,026	40,782,078
Unrealized Gain (Loss) at 3/31/10		<u>280,499</u>	<u>262,591</u>	<u>543,090</u>
YIELD AND BENCHMARKS:				
Cutwater Asset Management (current yield)				2.830%
Chandler Asset Management (current yield)				3.610%
Local Agency Investment Fund (LAIF) as of 3/31/10				0.560%
1-5 Government Index (total rate of return)				1.650%
Alameda County Treasurer (net of fees) as of 12/31/09				0.840%

**First 5 Alameda County
Investment Holdings
As of March 31, 2010**

<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	BELLSOUTH CORP NT 5.200% 9/15/14	160,000.0000	\$174,262.40	\$172,392.00	Corporate Obligations	A	A2
Chandler	BERKSHIRE HATH 3.200% 2/11/15	220,000.0000	\$219,817.40	\$221,878.80	Corporate Obligations	AA+	AA2
Chandler	BK OF AMERICA BDS 3.125% 6/15/12	335,000.0000	\$347,518.95	\$348,105.20	Corporate Obligations	AAA	AAA
Chandler	BK OF N Y MELLON NTS 4.300% 5/15/14	225,000.0000	\$236,775.25	\$236,855.25	Corporate Obligations	AA-	AA2
Cutwater	BOFA CORP NTS 7.400% 1/15/11	300,000.0000	\$321,864.00	\$313,920.00	Corporate Obligations	A-	A3
Chandler	CHEVRON CORP NTS 3.950% 3/03/14	245,000.0000	\$257,797.75	\$255,865.75	Corporate Obligations	AA	AA1
Cutwater	FFCB BDS 0.950% 10/26/11	1,250,000.0000	\$1,250,000.00	\$1,250,387.50	Government Obligations		
Chandler	FFCB BDS 3.000% 9/22/14	430,000.0000	\$439,698.90	\$436,450.00	Government Obligations		
Cutwater	FFCB BDS 3.150% 5/19/11	1,000,000.0000	\$1,035,960.00	\$1,028,130.00	Government Obligations	AAA	AAA
Chandler	FFCB BDS 4.500% 10/17/12	150,000.0000	\$154,407.00	\$160,921.50	Government Obligations	AAA	AAA
Chandler	FFCB BDS 4.875% 2/18/11	75,000.0000	\$80,004.22	\$77,835.75	Government Obligations	AAA	AAA
Cutwater	FFCB BDS 4.875% 4/04/12	1,000,000.0000	\$1,027,780.00	\$1,072,810.00	Government Obligations	AAA	AAA
Cutwater	FFCB BDS 5.000% 8/16/10	1,000,000.0000	\$1,033,580.00	\$1,017,810.00	Government Obligations	AAA	AAA
Chandler	FFCB BDS 5.375% 7/18/11	450,000.0000	\$488,335.95	\$476,860.50	Government Obligations	AAA	AAA
Cutwater	FFCB GLBL BDS 2.000% 1/17/12	1,000,000.0000	\$1,003,310.00	\$1,016,880.00	Government Obligations	AAA	AAA
Chandler	FHLB 3.875% 6/14/13	250,000.0000	\$247,290.00	\$265,157.50	Government Obligations	AAA	AAA
Cutwater	FHLB BDS 1.125% 6/03/11	1,000,000.0000	\$992,656.20	\$1,005,310.00	Government Obligations	AAA	AAA
Cutwater	FHLB BDS 2.000% 7/27/12	1,000,000.0000	\$1,000,000.00	\$1,004,060.00	Government Obligations		
Cutwater	FHLB BDS 3.250% 3/11/11	2,000,000.0000	\$2,001,040.00	\$2,050,000.00	Government Obligations	AAA	AAA
Chandler	FHLB BDS 3.625% 5/29/13	350,000.0000	\$342,595.40	\$370,125.00	Government Obligations	AAA	AAA
Chandler	FHLB BDS 3.625% 10/18/13	175,000.0000	\$184,985.33	\$184,843.75	Government Obligations	AAA	AAA
Chandler	FHLB BDS 4.625% 2/18/11	500,000.0000	\$531,331.00	\$517,815.00	Government Obligations	AAA	AAA
Chandler	FHLB BDS 4.875% 11/18/11	325,000.0000	\$350,857.65	\$345,413.25	Government Obligations	AAA	AAA
Cutwater	FHLB BDS S/U 1.000% 1/15/13	1,000,000.0000	\$1,000,000.00	\$1,000,000.00	Government Obligations		
Cutwater	FHLB BDS S/U 1.500% 8/24/12	500,000.0000	\$500,000.00	\$501,405.00	Government Obligations		
Chandler	FHLMC 4.500% 7/15/13	675,000.0000	\$711,770.50	\$730,053.00	Government Obligations	AAA	AAA
Cutwater	FHLMC MTN 1.875% 10/15/12	1,000,000.0000	\$1,000,820.00	\$1,004,740.00	Government Obligations	AAA	AAA
Cutwater	FHLMC MTN S/U 1.750% 1/29/15	1,000,000.0000	\$999,250.00	\$1,003,970.00	Government Obligations	AAA	AAA
Chandler	FHLMC NTS 2.500% 1/07/14	600,000.0000	\$593,947.20	\$606,954.00	Government Obligations	AAA	AAA
Chandler	FHLMC NTS 3.000% 7/28/14	425,000.0000	\$430,793.08	\$434,430.75	Government Obligations	AAA	AAA
Chandler	FHLMC NTS 3.250% 2/25/11	150,000.0000	\$151,762.50	\$153,421.50	Government Obligations	AAA	AAA
Chandler	FHLMC NTS 4.500% 1/15/13	250,000.0000	\$254,817.16	\$269,140.00	Government Obligations	AAA	AAA
Chandler	FHLMC NTS 4.750% 3/05/12	275,000.0000	\$298,979.45	\$293,906.25	Government Obligations	AAA	AAA
Chandler	FHLMC NTS 5.125% 4/18/11	200,000.0000	\$210,335.20	\$209,438.00	Government Obligations	AAA	AAA
Cutwater	FHLMC NTS S/U 2.000% 4/01/14	1,000,000.0000	\$990,000.00	\$1,000,000.00	Government Obligations	AAA	AAA
Chandler	FNMA NOTES 3.875% 7/12/13	425,000.0000	\$427,212.95	\$452,493.25	Government Obligations	AAA	AAA
Cutwater	FNMA NTS 1.850% 3/25/13	500,000.0000	\$499,330.00	\$497,815.00	Government Obligations	AAA	AAA
Chandler	FNMA NTS 2.500% 5/15/14	450,000.0000	\$442,457.55	\$452,533.50	Government Obligations	AAA	AAA
Chandler	FNMA NTS 2.875% 12/11/13	550,000.0000	\$554,188.25	\$563,920.50	Government Obligations	AAA	AAA
Chandler	FNMA NTS 3.625% 2/12/13	150,000.0000	\$148,160.85	\$158,109.00	Government Obligations	AAA	AAA
Chandler	FNMA NTS 3.625% 8/15/11	400,000.0000	\$419,114.80	\$415,376.00	Government Obligations	AAA	AAA
Chandler	FNMA NTS 5.000% 2/16/12	150,000.0000	\$163,994.25	\$160,641.00	Government Obligations	AAA	AAA

**First 5 Alameda County
Investment Holdings
As of March 31, 2010**

<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	FNMA NTS 6.000% 5/15/11	235,000.0000	\$241,803.25	\$249,172.85	Government Obligations	AAA	AAA
Cutwater	FNMA NTS 6.000% 5/15/11	850,000.0000	\$895,636.50	\$901,263.50	Government Obligations	AAA	AAA
Cutwater	FNMA NTS S/U 1.000% 1/29/13	750,000.0000	\$750,000.00	\$750,000.00	Government Obligations		
Cutwater	FNMA NTS S/U 2.000% 1/15/15	1,000,000.0000	\$1,000,000.00	\$1,003,440.00	Government Obligations		
Cutwater	G E CAP CORP MTN 5.250% 10/19/12	1,000,000.0000	\$1,029,100.00	\$1,073,540.00	Corporate Obligations	AA+	AA2
Chandler	GECC FDIC TLGP 2.125% 12/21/12	520,000.0000	\$520,494.00	\$526,801.60	Corporate Obligations	AAA	AAA
Chandler	GECC NTS 5.900% 5/13/14	240,000.0000	\$254,571.10	\$264,060.00	Corporate Obligations	AA+	AA2
Chandler	GENL DYNAMICS CORP 4.500% 8/15/10	160,000.0000	\$163,561.60	\$162,264.00	Corporate Obligations	A	A2
Chandler	GNR 2004-61-VA 5.000% 5/16/10	4,360.7800	\$4,308.99	\$4,366.27	Government Obligations	N/A	N/A
Cutwater	GOLDMAN SACHS 6.875% 1/15/11	120,000.0000	\$125,967.60	\$125,625.60	Corporate Obligations	A	A1
Chandler	GOLDMAN SACHS GR BDS 3.250% 6/15/12	490,000.0000	\$498,407.98	\$510,923.00	Corporate Obligations	AAA	AAA
Chandler	GOLDMAN SACHS GR NTS 6.000% 5/01/14	165,000.0000	\$181,843.20	\$180,671.70	Corporate Obligations	A	A1
Chandler	HEWLETT PACKARD CO 4.750% 6/02/14	160,000.0000	\$173,243.30	\$172,740.80	Corporate Obligations	A	A2
Chandler	HIGHMARK 100% US TREASURY MONEY MKT	360,798.2000	\$360,798.20	\$360,798.20	Cash & Cash Equivalents		
Cutwater	HIGHMARK 100% US TREASURY MONEY MKT	205,168.3400	\$205,168.34	\$205,168.34	Cash & Cash Equivalents		
Chandler	IBM CORP 2.100% 5/06/13	170,000.0000	\$171,132.20	\$171,188.30	Corporate Obligations	A+	A1
Chandler	JPMORGAN CHASE & CO 2.125% 12/26/12	515,000.0000	\$507,922.36	\$522,328.45	Corporate Obligations	AAA	AAA
Chandler	JPMORGAN CHASE SR NT 3.700% 1/20/15	175,000.0000	\$176,967.10	\$176,078.00	Corporate Obligations	A+	AA3
Cutwater	NATL CTY BK KEN NTS 6.300% 2/15/11	125,000.0000	\$128,517.50	\$128,471.25	Corporate Obligations	A	A2
Chandler	NORTHERN TR NTS 4.625% 5/01/14	165,000.0000	\$178,330.35	\$175,482.45	Corporate Obligations	AA-	A1
Chandler	PHILLIPS PETE 8.750% 5/25/10	145,000.0000	\$159,990.10	\$146,700.85	Corporate Obligations	A	A1
Chandler	PNC FDG CORP NTS 2.300% 6/22/12	515,000.0000	\$523,018.55	\$526,685.35	Corporate Obligations	AAA	AAA
Chandler	PROCTER & GAMBLE SR 4.600% 1/15/14	165,000.0000	\$178,399.65	\$177,280.95	Corporate Obligations	AA-	AA3
Chandler	TENN VY AUTH SER A 6.790% 5/23/12	475,000.0000	\$517,656.75	\$529,463.50	Government Obligations	AAA	AAA
Chandler	TVA SER C 4.750% 8/01/13	600,000.0000	\$638,422.85	\$651,936.00	Government Obligations	AAA	AAA
Chandler	U S TREAS NTS 3.375% 11/30/12	450,000.0000	\$451,371.09	\$473,661.00	Government Obligations	AAA	AAA
Chandler	U S TREAS NTS 4.750% 3/31/11	200,000.0000	\$197,492.19	\$208,540.00	Government Obligations	AAA	AAA
Cutwater	U S TREAS NTS 4.750% 3/31/11	1,370,000.0000	\$1,358,147.67	\$1,428,499.00	Government Obligations	AAA	AAA
Chandler	US BANCORP MTN 2.250% 3/13/12	510,000.0000	\$516,846.75	\$519,659.40	Corporate Obligations	AAA	AAA
Cutwater	US TREAS NTS 0.875% 2/29/12	500,000.0000	\$499,218.75	\$498,965.00	Government Obligations	AAA	AAA
Cutwater	US TREAS NTS 1.000% 7/31/11	750,000.0000	\$746,894.53	\$753,870.00	Government Obligations	AAA	AAA
Cutwater	US TREAS NTS 1.375% 3/15/13	500,000.0000	\$498,125.00	\$497,070.00	Government Obligations	AAA	AAA
Chandler	US TREAS NTS 2.500% 3/31/13	100,000.0000	\$102,523.77	\$102,742.00	Government Obligations	AAA	AAA
Chandler	US TREAS NTS 4.375% 12/15/10	75,000.0000	\$77,604.49	\$77,141.25	Government Obligations	AAA	AAA
Chandler	US TREAS NTS 4.500% 4/30/12	300,000.0000	\$298,804.69	\$321,375.00	Government Obligations	AAA	AAA
Chandler	US TREAS NTS 4.750% 5/31/12	400,000.0000	\$395,937.51	\$431,156.00	Government Obligations	AAA	AAA
Cutwater	US TREAS NTS 4.875% 7/31/11	550,000.0000	\$556,412.10	\$581,130.00	Government Obligations	AAA	AAA
Cutwater	US TREAS NTS 5.000% 2/15/11	1,000,000.0000	\$1,025,273.44	\$1,040,270.00	Government Obligations	AAA	AAA
Chandler	WAL-MART STORES 4.125% 7/01/10	250,000.0000	\$252,412.50	\$251,797.50	Corporate Obligations	AA	AA2
Chandler	WELLS FARGO & CO 2.125% 6/15/12	515,000.0000	\$518,866.62	\$522,936.15	Corporate Obligations	AAA	AAA
Chandler	WELLS FARGO BK SUB 4.750% 2/09/15	175,000.0000	\$182,084.00	\$181,730.50	Corporate Obligations	AA-	AA3
Total Holdings			\$40,782,077.71	\$41,325,167.26			