



To: First 5 Alameda County Commission

From: Rebecca Gebhart, Finance and Administration Director

Date: January 22, 2008

Subject: Investment Report: July 1, 2008 – December 31, 2008

REQUESTED ACTION

To review and approve the Investment report.

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 October 31, 2008, the market value of the portfolio was \$38,570,934, an increase of \$343,033.
- As of December 31, 2008, the market value of the portfolio was \$39,834,891, an increase of \$1,606,990.

It is important to note the increase in the market value of the portfolio from October 31st to December 31st. The amount of increase during this period was \$1,263,957. We investigated this further and found that during this period there was an increase in the value of the federal agency instruments, such as Fannie Mae and Freddie Mac, and the Treasury Notes, which can be seen on the 12-31-08 holdings report. This was confirmed by the investment custodial account staff at Union Bank of California.

In general, interest rates that generate yield are continuing to drop. Our high yield percentage is a result of instruments purchased a year or two ago that had a longer maturity. Finally, the Marsh & Ilsley holding that was on watch was sold on 12-12-08. Yesterday it was downgraded to BBB+ but we have no exposure since it was sold earlier in December.

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 six months (July 1, 2008 – December 31, 2008) of the money managers' investment earnings (\$859,431), earnings from interest on our funds at Union Bank (\$9,238), and earnings from the Alameda County investment pool (\$71,829). The earnings from the Alameda County pool only reflect the first quarter. Total earnings received are \$930,950.

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 \$513,069.

Investment Fees

Fees include two quarters' 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 \$24,675.

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.

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 (4.130% and 4.4%, 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 at the end of the 1st quarter are \$513,069.

REQUESTED ACTION

To review and approve the Investment report.

Submitted by:

Reviewed by:

Rebecca Gebhart, Director
Finance & Administration

Mark Friedman,
Chief Executive Officer