



Quarterly Investment Report

*As of
December 31, 2018*

March 21, 2019

This report presents the City's investment portfolio for the quarter ending December 31, 2018. It has been prepared to comply with regulations contained in California Government Code Section 53646. The report includes all investments managed by the City on its own behalf as well as for other third party agencies on a fiduciary basis such as the Whale Rock Commission. It also includes all City-related investments held by trustees for bond debt service obligations. As required, the report provides information on the investment type, issuer, maturity date, cost, and current market value for each security.

The investment objectives of the City of San Luis Obispo are first, to provide safety of principal to ensure the preservation of capital in the overall portfolio; second, to provide sufficient liquidity to meet all operating requirements; and third, to earn a commensurate rate of return consistent with the constraints imposed by the safety and liquidity objectives.

The City follows the practice of pooling cash and investments for all funds under its direct control. Funds held by outside fiscal agents under provisions of bond indentures are maintained separately. Interest earned on pooled cash and investments is allocated quarterly to the various funds based on the respective fund's average quarterly cash balance. Interest earned from cash and investments with fiscal agents is credited directly to the related accounts. It is common for governments to pool the cash and investments of various funds to improve investment performance. By pooling funds, the city is able to benefit from economies of scale, diversification, liquidity, and ease of administration.

The City uses the services of an investment advisor, PFM Asset Management, to manage a portion of the City's portfolio. The City's strategy is to retain approximately 25% of the portfolio to manage its day-to-day cash flow needs, while PFM's focus is on longer-term investment management. In addition, the City has retained direct control of several investments that had been acquired before the City began to use investment advisors. All investments are held by the City in a safe keeping account with Bank of New York Mellon, except for investments held by trustees related to bond financings, which are held by either US Bank or Bank of New York Mellon.

Investment Portfolio Benefits all Funds

The City's cash and investment portfolio represents money from all City funds, including the General Fund, enterprise funds, capital projects funds, and other funds which are restricted to specific purposes.

In general, monies held by the city are either allocated by the City Council for spending or are purposefully retained in reserve. For example, the money in the Capital Outlay Fund has been identified to provide particular capital projects for the community and there is a plan for spending down the cash balance as the projects progress. In the General Fund, approximately \$10 million is purposely held in reserve to meet the City's reserve policy of 20% of operating expenditures.

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Current Cash and Investment Summary

The following is a summary of the City's cash and investments based on market value as of December 31, 2018 compared with the prior quarter:

	September 30, 2018	December 31, 2018	Percent of Total
Cash and investments held by the City	32,594,827	41,673,965	34.77%
Cash and investments managed by PFM	76,334,784	77,229,567	64.44%
Cash and investments held by trustees	944,950	941,780	0.79%
TOTAL	109,874,561	119,845,312	100%

There are a number of factors which result in changes in cash and investment balances from month to month and quarter to quarter. Often they are the result of the receipt of revenues or a large disbursement. Some major City revenues are received on a periodic rather than a monthly basis. Property Tax, for example, is received in December, January, April and May of each year. Other revenues, such as Transient Occupancy Tax, are received monthly but vary considerably because they are seasonal. On the disbursement side, payments for bonded indebtedness or large capital projects can reduce the portfolio substantially in the quarter that they occur. Significant fluctuations of this type will be discussed in the following section of this report.

Securities in the City's portfolio are priced by IDC, an independent pricing service at the end of every month. In some cases, the City may have investments with a current market value that is greater or less than the recorded value. These changes in market value are due to fluctuations in the marketplace having no effect on yield, as the City does not intend to sell securities prior to maturity. Nevertheless, these market changes will impact the total value of the portfolio as reported. At December 31, 2018, the market value of the portfolio was \$725,820 less than the cost basis. The difference is an unrealized loss due to the inverse relationship between interest rates and market values as it relates to the fixed income portion of the City's investment portfolio.

The portfolio's yield on a market basis as of December 31, 2018 was 2.68%, and the yield on a cost basis was 2.06%. (These amounts do not reflect the returns on the assets held by the bond trustee.)

As of December 31, 2018, the investment portfolio was in compliance with all State laws, the City's Statement of Investment Policy and the City's Investment Management Plan.

Summary of Activity for the Quarter and Future Liquidity

Cash receipts and disbursements are generally consistent with past trends for the quarter. The cash management program contains enough liquidity to meet at least the next three months of expected expenditures by the City as well as by related parties, such as the Whale Rock Commission.

Report Contents and Distribution. This report includes the following four schedules on the City's portfolio as of December 31, 2018; summary of investments held or managed by the City, trustees or PFM; summary of investment portfolio liquidity; investment details; and detail of holdings for each investment. These schedules have not yet been reviewed by the City's independent auditor.

If you have any questions concerning this report, or require additional information, contact Brigitte Elke, Director of Finance at (805) 781-7125.

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