

## Quarterly Investment Report

*As of June 30, 2013*

July 31, 2013

This report presents the City's investment portfolio for the quarter ending June 30, 2013. 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 such funds. It is common for governments to pool the cash and investments of various funds to improve investment performance. By pooling funds, cities are able to benefit from economies of scale, diversification, liquidity, and ease of administration.

The City uses the services of an investment advisor, Chandler Asset Management, to manage a portion of the City's portfolio. The City's strategy is to retain approximately 20% of the portfolio to manage our day-to-day cash flow needs, while Chandler's focus is on longer-term investment management. In addition, the City has retained direct management of a few investments that were in the portfolio before Chandler began management. All investments are held by the City in a safe keeping account through Bank of New York, except for investments held by trustees related to bond financings, which are held by US Bank.

### ***Investment Portfolio by Fund***

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 held 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, about \$10 million is purposely held in reserve to meet the City's reserve policy of 20% of operating expenditures.

## Quarterly Investment Report

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### *Current Portfolio Summary*

The following is a summary of the City's cash and investments based on market value as of June 30, 2013 compared with the prior quarter:

	March 31, 2013	June 30, 2013	Percent of Portfolio
Cash and investments held by the City	19,727,967	23,421,771	31.48%
Cash and investments managed by Chandler	47,507,852	46,357,174	62.30%
Cash and investments held by trustees	4,749,851	4,630,030	6.22%
<b>TOTAL</b>	<b>\$ 71,985,670</b>	<b>\$ 74,408,975</b>	<b>100%</b>

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 and have 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. For June 30, 2013 the market value of the portfolio was \$191,574.00 higher than the cost basis.

The portfolio's annual yield on a market basis as of June 30, 2013 was 0.56%, and the yield on a cost basis was 1.12%.

As of June 30, 2013, 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*

The value of cash and investments held by the City increased this quarter, while monies managed by Chandler, and held by trustees, both decreased. These changes were due to the fact that funds were moved from Chandler to LAIF because this was a safer and more profitable investment choice considering current market trends. The decrease in investments held by the trustees is directly attributable to bond debt service payments which were made during this quarter. Cash receipts and disbursements are generally consistent with past trends for the quarter. The cash management program contains enough liquidity to meet the next six 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 of the City's portfolio as of June 30, 2013: summary of investments held or managed by the City, trustees or Chandler; summary of investment portfolio liquidity; 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 Wayne Padilla, Interim Director of Finance at (805) 781-7125.

**DISTRIBUTION LIST**

**City Council**

Jan Howell Marx, Mayor  
Kathy Smith, Vice-Mayor  
John Ashbaugh, Council Member  
Dan Carpenter, Council Member

April Richardson, Executive Assistant

**Investment Oversight Committee**

Wayne Padilla, Interim Director of Finance & Information Technology  
Michael Codron, Assistant City Manager  
Katie Lichtig, City Manager  
Mette Richardson, Finance Operations Manager  
Allen E. Eschenbach, Glenn Burdette Attest Corporation

**Other City Staff**

Rachel McClure, Administrative Analyst  
Jennifer Thompson, Revenue Supervisor

**Chandler Asset Management**

Nicole Dragoo, COO/Chief Compliance Officer  
Ted Piorkowski, VP/Portfolio Manager  
Jayson Schmitt, VP/Portfolio Manager

**city of san luis obispo**  
**SUMMARY OF INVESTMENTS**  
**As of June 30, 2013**

<b>INVESTMENTS HELD AND MANAGED BY THE CITY</b>			
	<b>Percent of Portfolio</b>	<b>Current Yield</b>	<b>Market Value</b>
Local Agency Investment Funds	58%	0.24%	13,636,858.00
Certificate of Deposit	4%	0.35%	1,000,000.00
Money Market Account	4%	0.21%	1,003,634.68
Checking Account	28%	0.00%	6,555,888.00
Treasury Issues	5%	7.54%	1,225,390.00
<b>Total Investments Held by the City</b>	<b>100%</b>	<b>0.55%</b>	<b>\$23,421,770.68</b>

<b>INVESTMENTS HELD BY THE CITY AND MANAGED BY CHANDLER ASSET MANAGEMENT</b>			
	<b>Percent of Portfolio</b>	<b>Current Yield</b>	<b>Market Value</b>
Federal Agency Issues	69%	0.38%	31,987,977.13
Money Market Fund	0%	0.00%	49,427.50
US Corporate Notes	15%	0.68%	6,909,647.64
Treasury Issues	16%	0.30%	7,410,121.65
<b>Total Investments Managed by Chandler Asset Management</b>	<b>100%</b>	<b>0.41%</b>	<b>\$46,357,173.92</b>

<b>INVESTMENTS HELD BY TRUSTEES FOR BOND DEBT SERVICE OBLIGATIONS</b>			
	<b>Percent of Portfolio</b>	<b>Current Yield</b>	<b>Market Value</b>
First American Treasury Funds	1%	0.00%	68,550.25
Money Market Accounts	0%	0.04%	2,253.87
Certificate of Deposit	16%	3.41%	755,900.20
Federal Agency Issues	10%	4.81%	446,031.30
Treasury Issues	72%	4.95%	3,357,294.50
<b>Total Investments Held by Trustees</b>	<b>99%</b>	<b>4.61%</b>	<b>\$4,630,030.12</b>

<b>TOTAL CASH AND INVESTMENTS</b>	
Investments Held by the City and Trustees --Market Value	<b>\$74,408,974.72</b>

**city of san luis obispo**  
**SUMMARY OF INVESTMENT PORTFOLIO LIQUIDITY**  
**As of June 30, 2013**

<b>INVESTMENTS HELD BY THE CITY</b>				
	<b>Managed by City</b>	<b>Managed by Chandler</b>	<b>Percent of Portfolio</b>	<b>Market Value</b>
On Demand	21,196,380.68	1,730,347.45	33%	22,926,728.13
Within Six Months	1,000,000.00	955,384.26	3%	1,955,384.26
Six Months to One Year	0.00	3,614,854.48	5%	3,614,854.48
Within One to Five Years	1,225,390.00	40,056,587.73	59%	41,281,977.73
Over Five Years			0%	0.00
<b>TOTAL</b>	<b>23,421,770.68</b>	<b>46,357,173.92</b>	<b>100%</b>	<b>\$69,778,944.60</b>

<b>INVESTMENTS HELD BY TRUSTEES FOR BOND DEBT SERVICE OBLIGATIONS</b>			
		<b>Percent of Portfolio</b>	<b>Market Value</b>
On Demand		2%	70,804.12
Within Six Months		0%	0.00
Six Months to One Year		16%	755,900.20
Within One to Five Years		10%	446,031.30
Over Five Years		73%	3,357,294.50
<b>TOTAL</b>		<b>100%</b>	<b>\$4,630,030.12</b>

<b>TOTAL CASH AND INVESTMENTS</b>	
Investments Held by the City and Trustees -- Market Value	<b>\$74,408,974.72</b>

**city of san luis obispo**  
**INVESTMENT DETAIL**  
**As of June 30, 2013**

<b>INVESTMENTS HELD AND MANAGED BY THE CITY</b>						
<b>Agency (Broker)</b>	<b>Investment Description</b>	<b>Coupon Rate</b>	<b>Current Yield</b>	<b>Purchase Date</b>	<b>Maturity Date</b>	<b>Market Value</b>
Local Agency Investment Fund	State Money Pool	NA	0.24%	Varies	On Demand	13,569,765.27
Local Agency Investment Fund	Money Market Fund	NA	0.24%	Varies	On Demand	67,092.73
Bank of America	Checking Account	NA	0.00%	Varies	On Demand	6,555,888.00
Mission Community Bank	Collateralized Certificate of Deposit	NA	0.35%	12/20/2011	12/20/2013	1,000,000.00
Mission Community Bank	Money Market Account and Interest Receivable	NA	0.21%	1/24/2012	On Demand	1,003,634.68
B of NY Safekeeping	U.S. Treasury Bond	9.25%	7.54%	4/18/86	2/15/2016	1,225,390.00
<b>TOTAL</b>						<b>\$23,421,770.68</b>

city of san luis obispo  
**INVESTMENT DETAIL**  
**As of June 30, 2013**

<b>INVESTMENTS HELD BY TRUSTEES FOR BOND DEBT SERVICE OBLIGATIONS</b>						
<b>Agency (Broker)</b>	<b>Investment Description</b>	<b>Coupon Rate</b>	<b>Current Yield</b>	<b>Purchase Date</b>	<b>Maturity Date</b>	<b>Market Value</b>
<b>2005 Refunding Lease Revenue Bonds</b>						
U. S. Bank Corporate Trust Services	First American Treasury Fund	N/A	0.00%	Varies	Varies	\$0.00
U. S. Bank Corporate Trust Services	United States Treasury Bonds	6.00%	4.47%	6/26/96	2/15/26	\$789,390.00
<b>2006 Lease Revenue Bonds</b>						
U. S. Bank Corporate Trust Services	First American Treasury Fund	N/A	0.00%	Varies	Varies	\$27,901.71
FSA Capital Management Services LLC	Guaranteed Investment Contract Treasury Fund	5.54%	5.54%	5/11/06	5/26/36	\$1,000,813.75
<b>2006 Water Revenue Bonds</b>						
U. S. Bank Corporate Trust Services	First American Treasury Fund	N/A	0.00%	Varies	Varies	\$27,875.44
FSA Capital Management Services LLC	Guaranteed Investment Contract Treasury Fund	5.35%	5.35%	8/17/06	5/28/36	\$1,035,347.50
<b>2009 Lease Revenue Bonds</b>						
U. S. Bank Corporate Trust Services	First American Treasury Fund	N/A	0.00%	Varies	Varies	\$12,773.10
U. S. Bank Corporate Trust Services	Collateralized Certificate of Deposit	N/A	3.41%	4/20/2009	5/15/14	\$755,900.20
<b>2012 Water Revenue Refunding Bonds (Refunded 2002 Water Revenue Bonds)</b>						
U. S. Bank Corporate Trust Services	U.S Bank Money Market Account	N/A	0.04%	Varies	Varies	\$2,252.45
U. S. Bank Corporate Trust Services	United States Treasury Bond	2.00%	2.03%	Varies	11/25/21	\$221,114.25
U. S. Bank Corporate Trust Services	United States Treasury Bond	7.13%	5.05%	Varies	2/15/23	\$310,629.00
<b>2012 Revenue Refunding Bonds (Refunded 2001 Revenue Refunding Bonds)</b>						
U. S. Bank Corporate Trust Services	U.S Bank Money Market Account	NA	0.00%	Varies	Varies	\$1.42
U. S. Bank Corporate Trust Services	Federal Agency Issues	5.50%	4.81%	Varies	8/15/16	\$446,031.30
<b>TOTAL</b>						<b>\$4,630,030.12</b>

**city of san luis obispo**  
**INVESTMENT DETAIL**  
**As of June 30, 2013**

**MANAGED BY CHANDLER ASSET MANAGEMENT**

The City of San Luis Obispo maintains certain performance objectives for the investments that are managed by Chandler Asset Management. The overall performance objective for the portfolio is to earn a total rate of return over the market cycle that equals or exceeds the market index. In order to achieve this objective the portfolio invests in high-quality money market instruments, US Treasury securities, Agency securities, and high-grade corporate securities, with a maximum maturity of five years. To monitor the achievement of this objective, the City uses a "Benchmark" to compare to. The benchmark which is used is based on the BofA Merrill Lynch Index of 0-5 year Treasury securities. Below is a summary of the monthly results as compared to the benchmark. While the City strives to achieve this performance objective every month, the goal is assumed to be met on an annual basis. The City of San Luis Obispo is currently just under the benchmark goals in most categories. We feel that through market trends and current investing adjustments, our performance will meet or exceed the benchmarks by the end of the fiscal year.

**Benchmark Comparison for the Quarter Ended 6/30/13**

	<u>Benchmark</u>	<u>6/30/13 Portfolio</u>	<u>3/31/13 Portfolio</u>
Average Maturity (yrs)	2.25	2.37	2.13
Modified Duration	2.17	2.31	2.07
Average Purchase Yield	n/a	1.23%	1.36%
Average Market Yield	0.53%	0.67%	0.39%
Average Quality	AAA	AA+/Aaa	AA+/Aaa
Total Market Value		\$46,357,174	\$47,507,852

The following pages provide a summary of the portfolio under management by Chandler Asset Management as well as a detailed holding report for the month.