



REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: SEPTEMBER 10, 2024

TITLE: TREASURER'S REPORT FOR THE FISCAL YEAR ENDED
JUNE 30, 2024

Director of Administrative Services

Signed by:

City Manager

RECOMMENDED ACTION

Receive and file the Treasurer's Report for the fiscal year ended June 30, 2024.

EXECUTIVE SUMMARY

The Treasurer's Report (Attachment 1) provides a synopsis of investment activity for the City's three investment portfolios for the fiscal year ended June 30, 2024. The portfolios, managed by Meeder Investment Management and Stifel Topalian Investment Group, under the direction of the Treasurer, include the Irvine Pooled Investment Portfolio, Gateway Preserve Portfolio, and the Special District Funds Portfolio. The total book value for all three portfolios was \$2.04 billion as of June 30, 2024. The report provides information on assets, allocations, average maturities, yields, and valuations for each of the three portfolios. A discussion of market conditions is included to give additional perspective to these measurements.

As of June 30, 2024, the City's investment portfolios are in full compliance with the City's Investment Policy, the California Government Code Section 53601, and have sufficient cash flow from a combination of liquid and maturing securities, bank deposits, and income to meet the City's expenditure requirements.

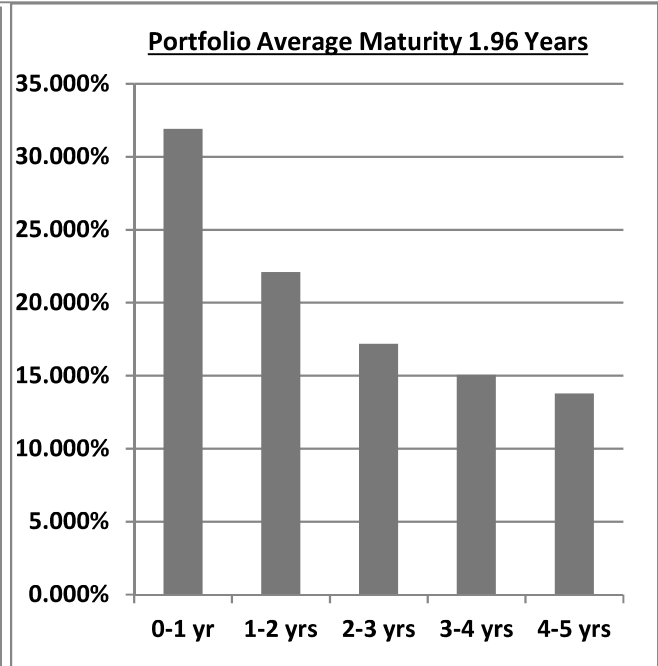
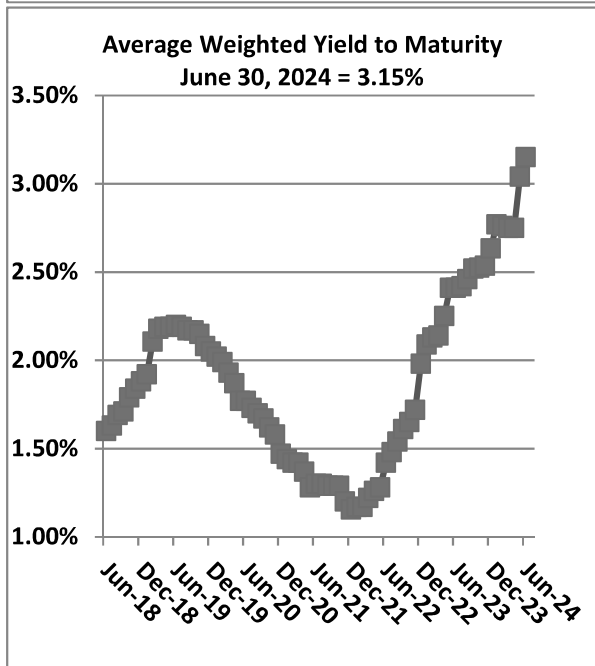
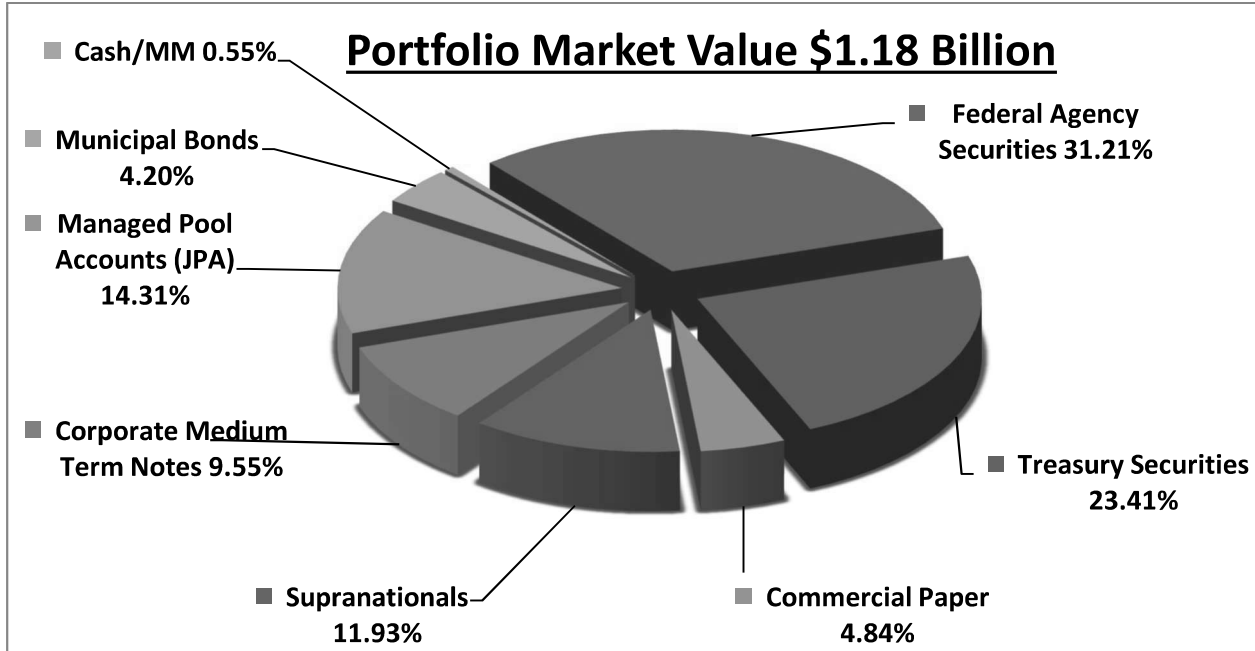
COMMISSION/BOARD/COMMITTEE RECOMMENDATION

At its regular meeting of August 14, 2024, the Investment Advisory Committee recommended that the City Council receive and file the Treasurer's Report for the fiscal year ended June 30, 2024 by a 4-1 vote (Committee Members Chung, Judd, Kandasamy and Wei approving; Committee Member Kan absent).

ANALYSIS

The Pooled Investment Portfolio holds the City's operating funds. Charts on following pages provide highlights on asset allocation, maturity distribution, credit quality, as well

as the book yield history of this portfolio only. The Treasurer’s Report provides detailed information on all three portfolios.



ALTERNATIVES CONSIDERED

None. The Treasurer’s Report is intended to provide historical information about the City’s investment portfolios. Pursuant to the City’s Investment Policy, the Treasurer is required

to submit quarterly Treasurer's reports to the Investment Advisory Committee, the Finance Commission, and the City Council.

FINANCIAL IMPACT

Fiscal year-to-date investment income for the Irvine Pooled Investment Portfolio, Gateway Preserve Bond Portfolio, and Special District Funds Portfolio totaled \$62.21 million with investments structured for security and liquidity.

REPORT PREPARED BY Don Collins, City Treasurer

Attachments:

1. Treasurer's Report for the Fiscal Year Ended June 30, 2024
2. Summary of Irvine Pooled Investment Portfolio by Fund



**CITY OF IRVINE
TREASURER'S REPORT
For Fiscal Year Ended June 30, 2024**

The City of Irvine maintains three investment portfolios, the Irvine Pooled Investment Portfolio, Gateway Preserve Portfolio, and the Special District Funds Portfolio. As of the quarter ended, June 30, 2024, combined book value of the three portfolios totaled \$2.04 billion. This report provides detailed information of all three portfolios, along with an analysis of market conditions.

Irvine Pooled Investment Portfolio

The Irvine Pooled Investment Portfolio contains funds invested for the daily operational requirements of the City and funds reserved for economic uncertainties, future rehabilitation and maintenance needs. The portfolio is a combination of various operational funds, including the City's Asset Management Plan and funds earmarked for the development of the Great Park. A summary of Irvine Pooled Investment Portfolio by Fund is presented at the end of this report (Attachment 2).

As of June 30, 2024, the book value (purchase price of securities as recorded on the City's books) of the portfolio was \$1.21 billion and the average yield to maturity was 3.15 percent. Fiscal year to date investment revenue (interest payments and capital gains) generated by the portfolio as of June 30, 2024 was \$25.02 million. The table below compares the portfolio's statistics over a rolling 12-month period.

**Irvine Pooled Investment Portfolio
Rolling 12-Month Quarterly Comparison**

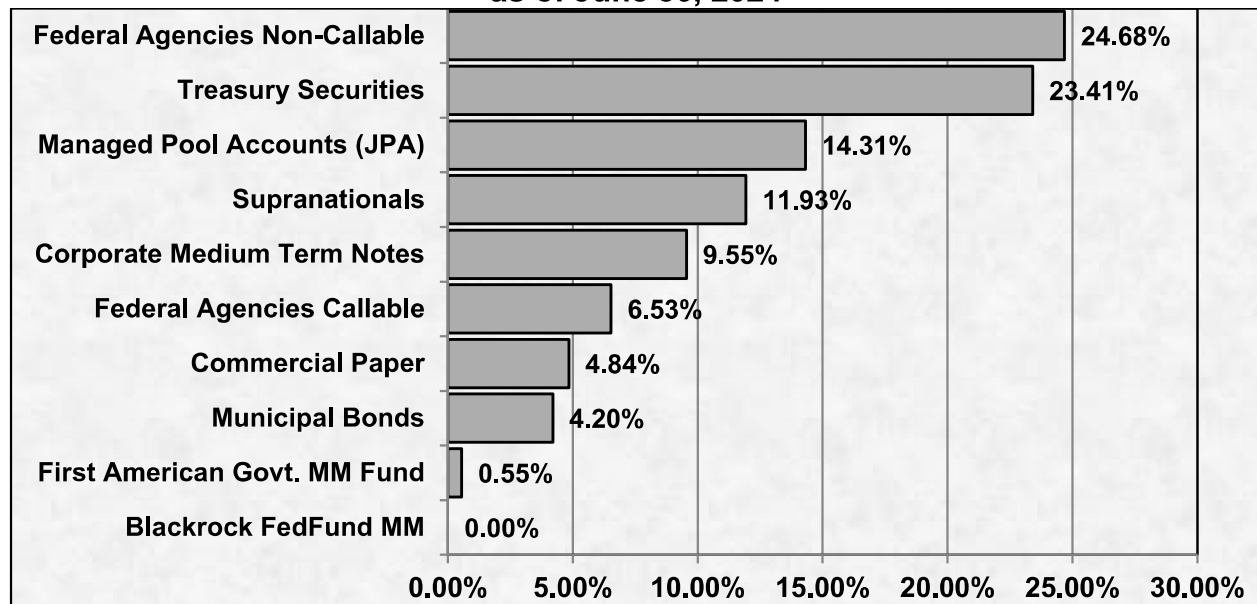
	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023
Book Value	\$1,208,214,466	\$1,119,387,780	\$1,061,097,453	\$1,060,380,663
Market Value	\$1,180,415,158	\$1,088,790,615	\$1,033,917,036	\$1,012,304,922
Unrealized Gain/(Loss)	(\$27,799,309)	(\$30,597,166)	(\$27,180,417)	(\$48,075,741)
Unrealized Gain/(Loss) as % of Book Value	-2.30%	-2.73%	-2.56%	-4.53%
Average Yield To Maturity	3.15%	2.75%	2.63%	2.52%
Liquidity 0–6 Months	26.90%	19.37%	16.11%	14.65%
Weighted Average Maturity	1.96	2.25	2.12	2.16
Modified Duration (Years)	1.81	2.09	1.99	2.01
Quarterly Interest Earnings	\$6,300,707	\$7,836,388	\$5,794,482	\$5,088,235
Fiscal Year to Date Income	\$25,019,812	\$18,719,105	\$10,882,717	\$5,088,235

As anticipated, the Irvine Pooled Investment Portfolio's book value increased by \$88.83 million from the previous quarter due to a combination of the receipt of sales tax, and developer fees. The portfolio yield to maturity increased for the fiscal year ended June 30, 2024 by 40 basis points to 3.15 percent as maturing investments were reinvested into the higher rate environment. With market rates moving slightly higher during the quarter, as of June 30, 2024, the portfolio ended with an unrealized loss of \$27.80 million as compared to an unrealized loss of \$30.60 million as of March 31, 2024. This is a normal result of the portfolio's modified duration of 1.81 years and its price-sensitivity to changes in market interest rates.

To ensure the safety of the portfolio, investments held are in compliance with the Irvine Investment Policy, Bond Indentures, and State Code 53601 et al. The Irvine Pooled Investment Portfolio is comprised primarily of Treasury Securities and Federal Government sponsored entity debt, otherwise known as federal agency securities. Although both Treasury and Federal Agency securities were downgraded by Standard & Poor's to AA+ in August 2011, and by Fitch to AA+ in August 2023, they continue to be regarded as among the safest securities in the global market. Two of the government sponsored agencies, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), remain under conservatorship and carry an implicit guarantee by the Federal Government. In addition, both are carefully monitored by the City's investment manager and Treasurer to ensure the continued safety of the City's funds.

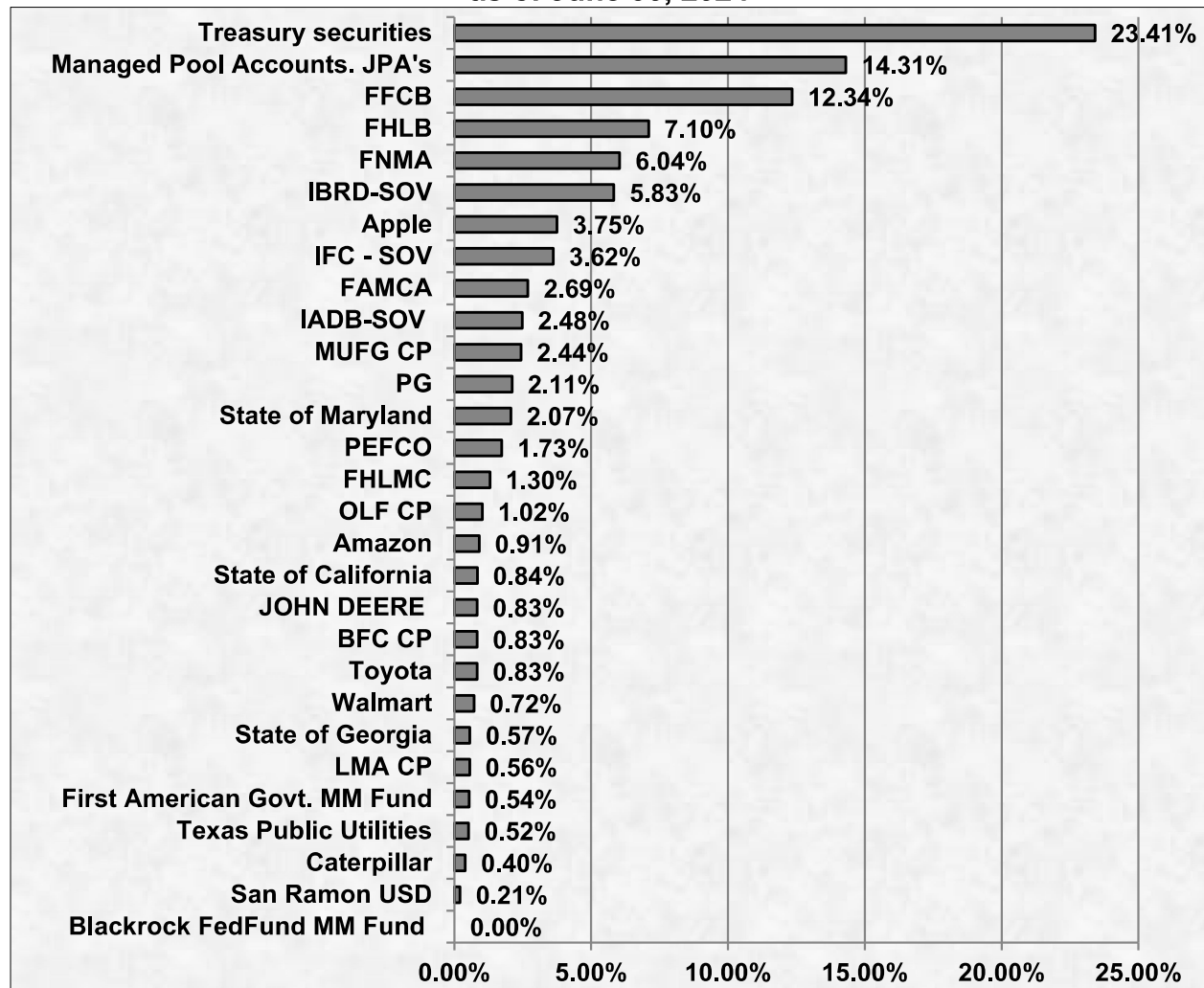
To manage liquidity, the Irvine Pooled Investment Portfolio is invested in Managed Pool Accounts (JPA), short-term Commercial Paper, Blackrock Fed Fund money market fund, and First American Government money market fund. Chart 1 shows the asset allocation of the portfolio.

Irvine Pooled Investment Portfolio
Chart 1 - Asset Allocation
as of June 30, 2024



To diversify, the City purchases United States Treasury notes, Commercial Paper, Corporate Medium-term notes, Supranational notes, and securities from several different federal agencies. The five Federal Government sponsored entities the City owns are: Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Bank (Home Loan), Federal Agricultural Mortgage Corporation (Farmer Mac), and Federal Farm Credit Bank (Farm Credit). Chart 2 identifies portfolio holdings by issuer name.

**Irvine Pooled Investment Portfolio
 Chart 2 - Holdings by Issuer Name
 as of June 30, 2024**



Another key component in portfolio management is to ensure that the City has enough funds on hand to meet current expenses. As of June 30, 2024, the overnight to 6-month liquidity level for the Irvine Pooled Investment Portfolio was 26.9 percent, and 31.9 percent liquidity overnight to one year. Chart 3, on the following page, is an aging of investment maturities up to five years (the maximum maturity allowable by policy and state code) of the Irvine Pooled Investment Portfolio.

Irvine Pooled Investment Portfolio
Chart 3 - Aging of Maturing Investments (Maturity Value)
as of June 30, 2024

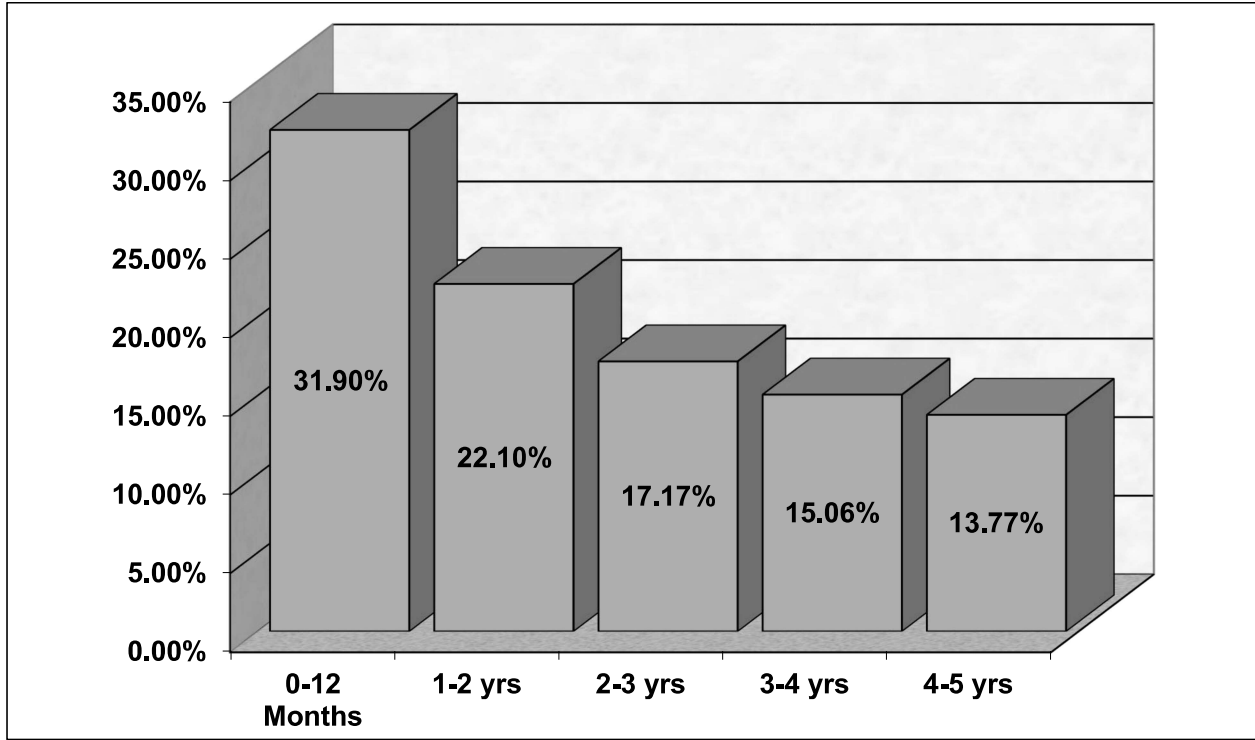
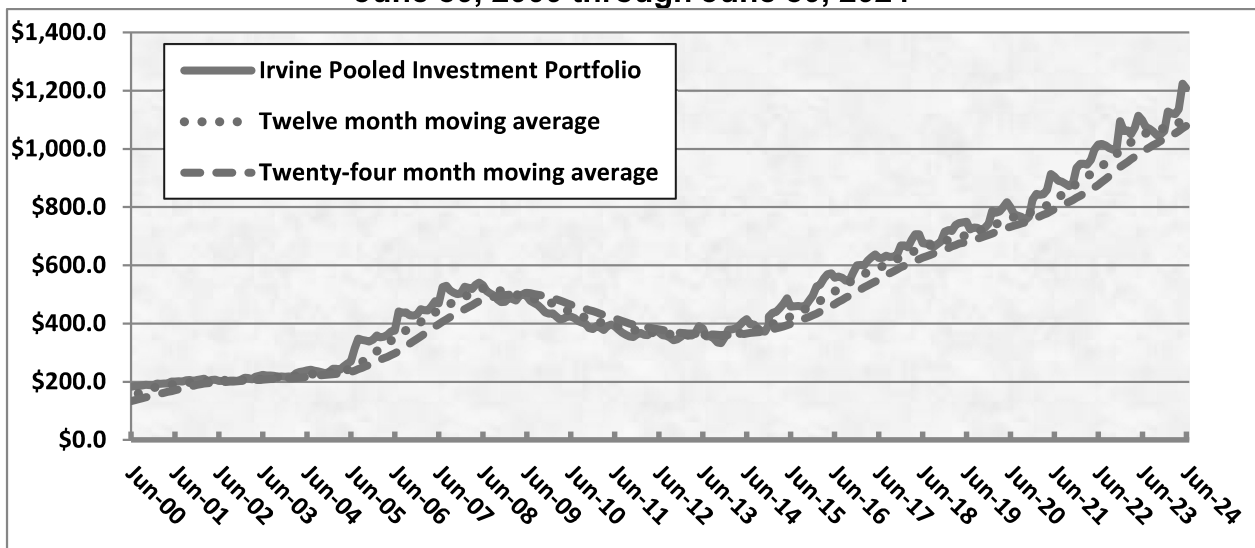
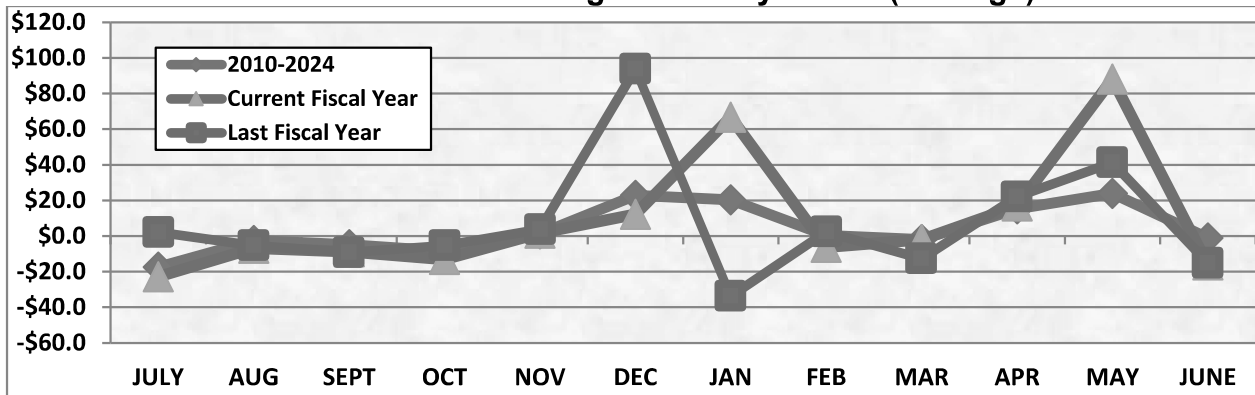


Chart 4 and Chart 5 show the volatility and cyclical nature of the Irvine Pooled Investment Portfolio fund balance and cash flows between 2000 and 2024.

Irvine Pooled Investment Portfolio
Chart 4 - Portfolio Balance
June 30, 2000 through June 30, 2024

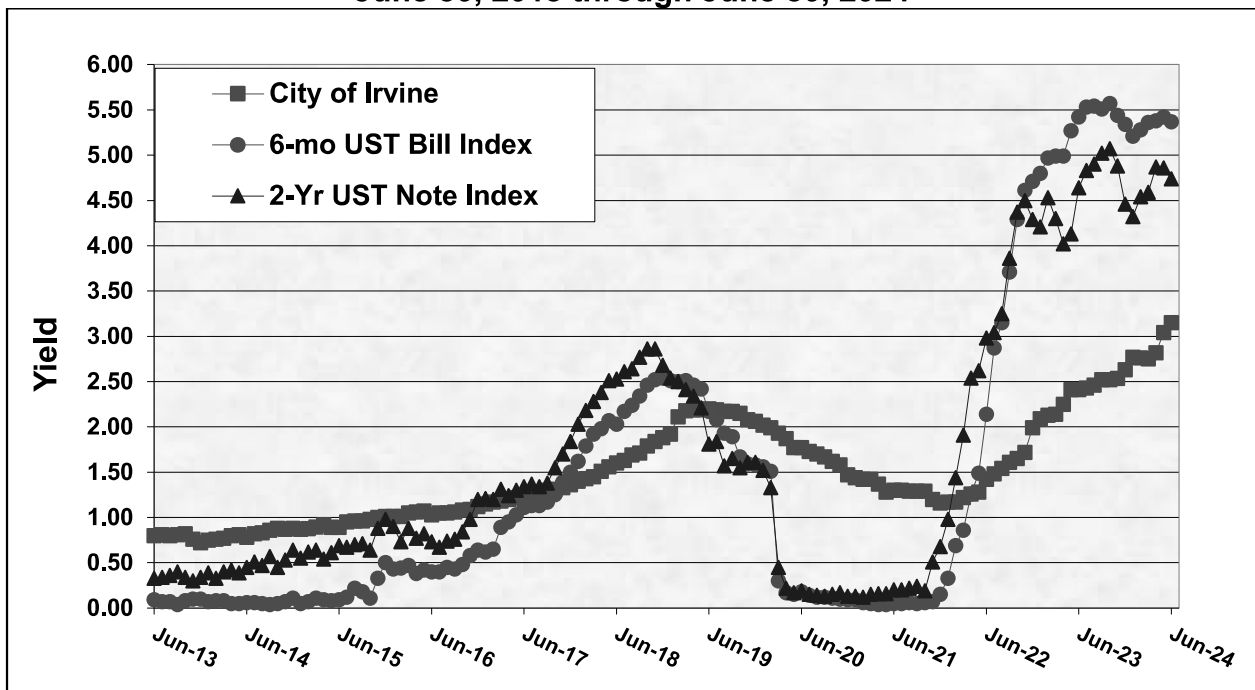


Irvine Pooled Investment Portfolio
Chart 5 – Balance Change Month by Month (Average)



To gauge performance, the City compares the Irvine Pooled Investment Portfolio's book yield to maturity against two reference notes set in the City's Annual Investment Policy: the 6-month United States Treasury (UST) Bill Index and 2-year UST Note Index spot yield. Chart 6 compares the average yield to maturity of the portfolio to these reference notes, and shows the spread (difference between the index and the yield to maturity) for the past ten years. The portfolio's book yield is lower than the 6-month UST by 2.22 percent and lower than the 2-year UST by 1.59 percent, due to the Federal Reserve rapidly increasing short term interest rates in response to inflation.

Irvine Pooled Investment Portfolio
Chart 6 - Yield to Maturity Compared to Assigned Indices
 June 30, 2013 through June 30, 2024



Gateway Preserve Portfolio

The Gateway Preserve Portfolio contains funds for the procurement and conversion of the All American Asphalt Plant. Investments in this portfolio are made in accordance with the bond's indenture and the strategy is based on the cash flow needs. The Gateway Preserve Portfolio must also remain very liquid to provide the acquisition funds needed, as well as meet debt service payment requirements. Fiscal year-to-date investment revenue (interest payments and capital gains) generated by the Gateway Preserve Portfolio as of June 30, 2024 is \$6.62 million.

**Gateway Preserve Fund Portfolio
 Rolling Quarterly Comparison**

	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023
Book Value	\$67,093,844	\$74,417,660	\$74,986,363	\$306,145,876
Market Value	\$68,301,147	\$75,124,949	\$75,159,772	\$306,033,942
Unrealized Gain/(Loss)	\$1,207,302	\$707,289	\$173,409	(\$111,934)
Unrealized Gain/(Loss) as % of Book Value	1.80%	0.95%	0.23%	-0.04%
Average Yield to Maturity	5.10%	5.12%	5.14%	5.28%
Average Days to Maturity	193	258	254	95
Quarterly Interest Earnings	\$486,449	\$367,181	\$1,149,216	\$4,613,706
Fiscal Year to Date Income	\$6,616,552	\$6,130,103	\$5,762,922	\$4,613,706

Special District Funds Portfolio

The Special District Funds Portfolio contains project and reserve funds for 21 AD and RAD bond issues, seven CFD bond issues, and one Irvine Facilities Financing Authority bond issue. Investments in this portfolio are made in accordance with each bond's indenture and the strategy is based on the cash flow needs of each district. The Special District Funds Portfolio must also remain very liquid to provide project funds, when needed, as well as meet debt service payment requirements. Fiscal year-to-date investment revenue (interest payments and capital gains) generated by the Special District Funds Portfolio as of June 30, 2024 is \$30.58 million.

**Special District Funds Portfolio
 Rolling 12-Month Quarterly Comparison**

	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023
Book Value	\$767,488,147	\$728,664,864	\$784,999,996	\$728,954,910
Market Value	\$773,511,141	\$735,592,983	\$790,658,245	\$729,425,797
Unrealized Gain/(Loss)	\$6,022,993	\$6,928,119	\$5,658,249	\$470,887
Unrealized Gain/(Loss) as % of Book Value	0.78%	0.95%	0.72%	0.06%
Average Yield To Maturity	5.20%	5.01%	5.05%	5.34%
Average Days To Maturity	55	124	148	220
Quarterly Interest Earnings	\$10,557,106	\$7,110,121	\$6,889,065	\$6,020,670
Fiscal Year to Date Income	\$30,576,962	\$20,019,856	\$12,909,735	\$6,020,670

Market Conditions

During the fourth quarter of FY 2023-24, interest rates increased across the entire yield curve. The Federal Reserve voted to hold the federal funds rate steady at its scheduled meetings on May 1, 2024, and June 12, 2024. During the quarter, the yield of the 6-month Treasury bill increased 1 basis points to 5.31 percent, the 2-year Treasury note increased 13 basis points to 4.75 percent, and the 5-year Treasury note increased by 21 basis points to 4.42 percent. The Local Agency Investment Fund (LAIF) daily rate increased from 4.27 percent to 4.56 percent during the quarter. The Joint Power Authority (JPA) daily rate at quarter end is 5.43 percent. The net effect to the Pooled Investment Portfolio was a decrease in the unrealized market value loss to \$27.80 million as of June 30, 2024 from an unrealized market value loss of \$30.60 million as of March 31, 2024, which is in direct proportion to the stated duration of the portfolio, and the change in market yields.

At its June meeting, the Federal Open Market Committee (FOMC) voted to hold rates steady at 5.25 percent to 5.5 percent, as expected, although its updated dot plot provided some hawkish surprises. In the updated Summary of Economic Projections, the Federal Reserve left its growth and employment forecasts for calendar year 2024 unchanged, while the headline and core inflation estimates were revised up 0.2 percent to 2.6 percent and 2.80 percent, respectively. On the dot plot, the median FOMC member lowered the expected number of 2024 rate cuts from three to one, although one cut was added to the 2025 forecast. The longer-run dot also rose to 2.8 percent, up from 2.6 percent. Moving forward, the outlook for interest rates remains largely dependent on incoming growth and inflation data. Easing inflationary pressures through the summer and early fall should allow the Federal Reserve to cut one to two times this year. During Jerome Powell most recent testimony to the Senate Banking Committee July 9, 2024, Jerome Powell noted that progress has been made toward the Federal Reserves 2 percent inflation target, but also emphasized the downside risks to the labor market.

The May Consumer Price Inflation (CPI) report showed a slower than expected rise in inflation. Headline CPI held steady relative to last month and rose 3.30 percent year over

year (y/y), while core inflation rose by 0.2 percent month over month (m/m), and 3.4 percent y/y. Energy prices fell 2 percent m/m, led by a sharp decline in gasoline prices, while core goods prices were flat on a monthly basis. Across core services, shelter inflation remained elevated at 0.4 percent m/m for a fourth consecutive month. However, in a welcome turn of events, auto insurance fell 0.1 percent m/m after many unexpectedly strong prints. Similarly, headline and core Personal Consumption Expenditure (PCE) inflation both eased to 2.6 percent y/y, down from 2.7 percent and 2.8 percent, respectively. Overall, this report alone won't do much to sway the FOMC messaging, but if the idiosyncratic factors keeping inflation elevated show further improvement in the coming months, inflation should continue its slow descent back to 2 percent.

The June Jobs report showed decent job gains, although other details looked a bit soft. Nonfarm payrolls rose by a strong 206 thousand, beating consensus estimates. That said, revisions removed 111 thousand jobs from both the April and May reports. Across sectors, health care and government saw the strongest job growth, but the cyclical temporary help services sector lost 49 thousand jobs. Elsewhere, the unemployment rate ticked up to 4.1 percent, the highest level since November 2021, while wage growth eased to 0.3 percent m/m and 3.9 percent y/y. Overall, the labor market, while still tight relative to history, is steadily cooling, and easing wage growth provides further evidence that this labor market is not adding to inflationary pressures.

The first quarter 2024 earnings season has come to a close and the final estimate for S&P 500 operating earnings per share (EPS) is \$54.91, which represents growth of 4.50 percent y/y and 1.9 percent quarter over quarter. Across sectors, information technology and communication services had strong quarters, while resilient consumer demand supported the consumer discretionary sector. Elsewhere, energy, materials and health care all saw earnings fall. Revenues, supported by resilient economic activity and solid inflation, were the largest contributor to operating earnings growth, although margins will play an increasingly important role as momentum slows.

In conclusion, risks to the economy, bond market, and equity market are predicated on significant geo-political turmoil, the upcoming election, weakening consumer spending power, and tight financial conditions. The City of Irvine will continue to maximize the duration of its portfolio within the guidelines of anticipated cashflows by utilizing high quality investments, which will be favorable when the yield curve reverts to a more normal slope.

Pooled Investment Portfolio
Investment and Earnings Reconciliation
6/30/2024

Book Value Reconciliation

Sympro Book Value:		
PM Detail	5/31/2024	\$ 1,224,405,184.81
PM Detail	6/30/2024	\$ 1,208,214,466.49
Sympro Change in Book Value		<u>\$ (16,190,718.32)</u>
City Book Value:		
Purchases		\$ 82,142,984.24
Maturities/Sales		\$ (98,325,203.15)
Purchased Accrued Interest		\$ (8,499.41)
Covid Relief Funds		\$ -
Adjustments:		
Reconciled Change in Book Value		<u>\$ (16,190,718.32)</u>

Earnings Reconciliation

Sympro Investment Earnings:		
Interest History		\$ 2,574,918.97
Realized Gains/Losses		\$ 36,430.18
MM/LAIF Interest		\$ 741,982.16
Pass-Through Interest		\$ -
Unadjusted Sympro Investment Earnings		<u>\$ 3,353,331.31</u>
Adjustments:		
24-0001		\$ (127,500.00)
24-0002		\$ (240,000.00)
22-0193		\$ (197,500.00)
22-0070		\$ (22,421.88)
22-0073		\$ (65,937.50)
22-0075		\$ (13,750.00)
23-0019		\$ (243,750.00)
24-0011		\$ (203,983.52)
24-0021		<u>\$ (29,206.73)</u>
Reconciled Investment Earnings		<u>\$ 2,209,281.68</u>

Total Monthly Earnings	\$ 2,209,281.68
Fiscal Year To Date Earnings	\$ 25,019,811.83