



# Staff Report

## City of Manhattan Beach

**TO:** Members of the Finance Subcommittee

**FROM:** Bruce Moe, Finance Director

**DATE:** March 20, 2012

**SUBJECT:** Temporary Modification of Existing Investment Policy to Permit the Purchase of Medium Term Notes with Maturities up to Five Years

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**RECOMMENDATION:**

Staff recommends that the Finance Subcommittee: a) approve the temporary modification of the Investment Policy to permit the purchase of Medium Term Notes with maturities up to five years; and b) set a sunset date for the maturity extension of December 31, 2012.

**FISCAL IMPLICATION:**

Extending the potential term on the purchase of Medium Term Notes from three to five years will provide the Treasurer and staff the capability to purchase investments with potentially higher yields. This term extension is in compliance with state law.

**BACKGROUND:**

The past few years have been challenging in terms of investment yields. The global recession and economic downturn have forced investment yields lower for an extended period of time. The result has been a drop in our portfolio yield-to-maturity to 1.107% as of the end of February 2012. Given the constraints of our Investment Policy, as well as State law, the opportunity to invest with any significant yields is limited as shown below:

Sample Investments

	<u>2-Year</u>	<u>3-Year</u>	<u>4-Year</u>	<u>5-Year</u>
Callable Federal Agency	0.410%	0.612%	0.863%	1.220%
Federal Agency Bullet	0.380%	0.550%	0.780%	1.070%
Medium Term Notes (Aa3 or higher)	0.430%	0.940%	1.130%	1.190%

The chart illustrates that some yield gains may be possible if the policy allows for the purchase of Medium Term Notes in the four to five year range. Of course, the actual yield will depend upon the credit quality of the issuer (also set by policy) which staff considers when investing.

The City's current policy on Medium Term Notes is as follows:

Medium Term Notes	3 Years / 20% max / 5% per issuer combined limiting business sector to 10%	3 Year Maximum 20% maximum 5% per issuer maximum <i>including Commercial paper</i> 10% max by sector classification <i>Limited to Aaa to Aa3</i> <i>(Moody's) or AAA to A+</i> <i>(Standard and Poors)</i>
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\*The italicized verbiage was added late last year

Staff believes that expanding the maturity window for Medium Term Notes may assist in the effort to safely improve yields. Further, this modification is in-line with existing State law. If this temporary modification is approved, staff will continue to consider investment opportunities based on safety, liquidity and then yield in that order. Modifying the policy will simply provide more investment options.