

March 19, 2024

Honorable Mayor and City Council
City of Long Beach
California

RECOMMENDATION:

Recommendation to receive and file the Investment Report for Quarter Ending December 31, 2023. (Citywide)

DISCUSSION

The City of Long Beach (City) Treasurer's Office in the Financial Management Department invests City funds in compliance with the California Government Code, Section 53600 et. seq., and the City's Investment Policy. As of December 31, 2023, these funds had a book value of approximately \$2.250 billion.

Statutory Compliance

All investment transactions have been executed in conformance with the City's Investment Policy and the California Government Code. The Investment Advisory Committee, composed of the Assistant City Auditor, Principal Deputy City Attorney, City Treasurer, City Controller, and designated representatives from the Harbor and Utilities Departments, meets quarterly, or as needed, to review investment policies, strategies, and performance. All portfolio transactions as of December 31, 2023, can be found in the Investment Trading Activity (Attachment A).

Investment Strategies

The Investment Policy divides the City's investment portfolio into short-maturity, intermediate-maturity, and long-maturity portfolios. Their respective benchmarks are the Three-Month Treasury Bill Index, the ICE Bank of America Merrill Lynch (BAML) One-to-Three Year US Treasury/Agency, and the ICE Bank of America Merrill Lynch (BAML) One-to-Five Year US Treasury/Agency.

The short-maturity portfolio maintains a weighted average maturity of three to six months and provides sufficient liquidity to satisfy the City's short-term cash needs. The intermediate-maturity portfolio maintains a weighted average maturity of approximately one to three years and provides for the cash needs with maturities greater than six months. The long-maturity portfolio maintains a weighted average maturity of one to five years to satisfy the City's longer-term cash needs.

The City's cash management goals are to maintain and preserve the safety of funds in custody and provide adequate liquidity for anticipated expenditure needs. Approximately \$680.8 million

of the total investment pool, or approximately 30.74 percent of the funds, will mature in the next six months, ensuring that sufficient funds are available to meet the City's liquidity needs.

Investment Position and Performance

The following table summarizes the City's investment pool position and performance for the quarter ending December 31, 2023:

INVESTMENT VALUE AND PERFORMANCE As of December 31, 2023					
Portfolio	Book Value ¹	Market Value ¹	Unrealized Gain/(Loss) ²	Quarterly Portfolio Yield ³	Years to Maturity
Short-Maturity	\$357,312,020	\$357,469,305	\$157,285	4.23%	0.13
Intermediate-Maturity	\$1,350,703,574	\$1,331,891,941	(\$18,811,633)	3.18%	1.89
Long-Maturity	\$510,846,980	\$494,318,908	(\$16,528,072)	2.11%	2.03
Total Investments	\$2,218,862,574	\$2,183,680,154	(\$35,182,419)	3.17%	1.61

Total Cash	\$30,892,575	\$30,895,575	QUARTERLY INTEREST EARNINGS⁴ As of December 31, 2023	
Total Cash and Investments	\$2,249,755,149	\$2,214,575,729	Total Interest Earnings	\$13,568,116

- 1) Book value is the initial value/outlay for an investment at the time of purchase (as much as five years ago) and still held in the portfolios, while market value represents the value at a point in time based on current market conditions.
- 2) Unrealized Gain/(Loss) is the difference between book and market value. It is inversely related to the change in interest rates. As interest rates rise or fall, the value of fixed-income assets moves in the opposite direction. Typically, investments are held to maturity, and therefore, gains/losses are rarely realized.
- 3) The portfolio yield is a return measure for an investment over a set period of time, expressed as a percentage.
- 4) Interest Earnings is the amount of interest earned from investments over a 3-month period, net of investment-related expenses.

The quarter ending December 31, 2023, experienced a decrease in market interest rates, which caused the book-value-to-investment-value adjustment to remain negative, but less so than the previous quarter. This resulted in an unrealized loss of approximately \$35.2 million, smaller than the prior quarter's unrealized loss of approximately \$65.9 million. Generally, there will be minimal actual realized loss since most securities are held to maturity. For the three months ended December 31, 2023, the quarterly portfolio yield was 3.17 percent, which was 13 basis points (0.13 percent) higher than the previous quarter.

Another view of investment performance considers actual interest earnings, irrespective of changes in market value of the portfolio that are unlikely to be realized. As shown in the bottom-right portion of the table above, interest earnings totaled \$13.57 million for the quarter ending December 31, 2023, which was \$1.23 million higher than the previous quarter.

Investment portfolio holdings as of December 31, 2023, are included in Attachment B.

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This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on February 20, 2024, and Acting Revenue Management Officer Valerie Valentine on February 23, 2024.

TIMING CONSIDERATIONS

City Council action on this item is not time critical.

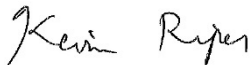
FISCAL IMPACT

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no fiscal or local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



Kevin Riper
Director
Financial Management

APPROVED:



THOMAS B. MODICA
CITY MANAGER

ATTACHMENTS: A – CITY OF LONG BEACH INVESTMENT TRADING ACTIVITY
B – CITY OF LONG BEACH INVESTMENT PORTFOLIO HOLDINGS