



City of Laguna Beach

Investments – Improving Safety and Return

With Guest Financial Expert
Bill Blackwill, Managing Director
Stifel Investment Services



Tuesday May 3, 2016
4pm to 5pm

Laguna Beach City Hall
Conference Room C

Agenda

- | | |
|--|-----------|
| 1. Status of investments, March 31, 2016 | 2 |
| 2. Economic overview | 7 |
| 3. Rightsizing portfolio risk and expanding choices | 13 |

Laura Parisi, CPA, CCMT, CFIP
City Treasurer

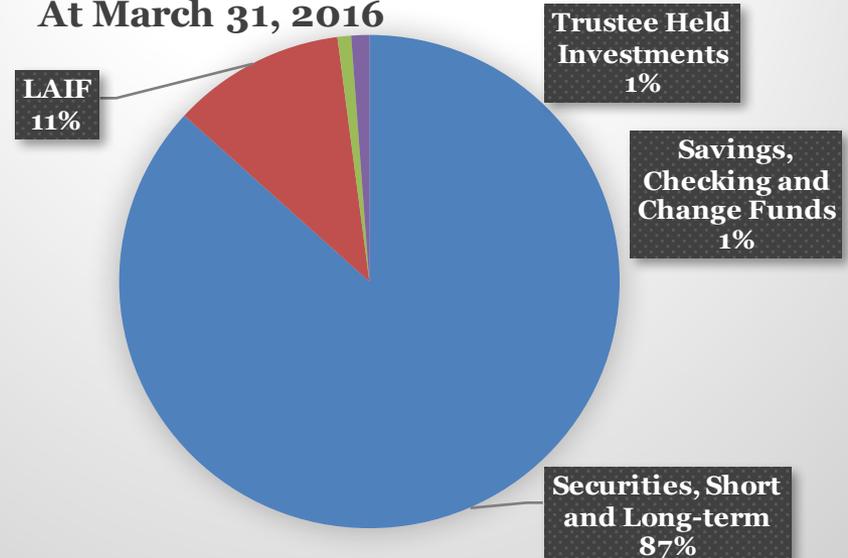
Status

Cash and investments were \$87 million at March 31, 2016, \$12 million higher than last year.

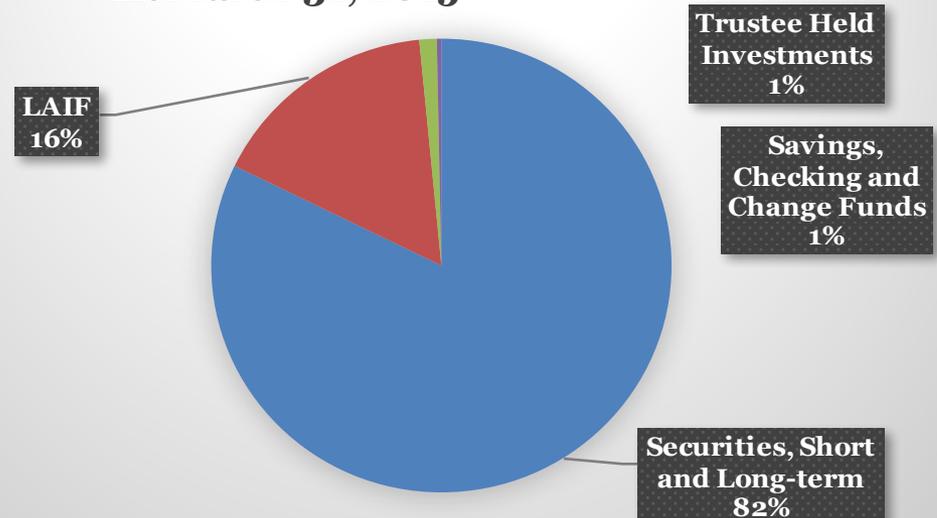
Excess funds were invested in compliance with the City Investment Policy in high quality secure investments including securities backed by the federal government (79%), State of California (11%) and AAA to A category corporate or municipal notes (10%).

There was a heavy buying period mid-March prior to the “flight to quality” that caused a decrease in interest rates at month end.

Composition of Operating Portfolio At March 31, 2016



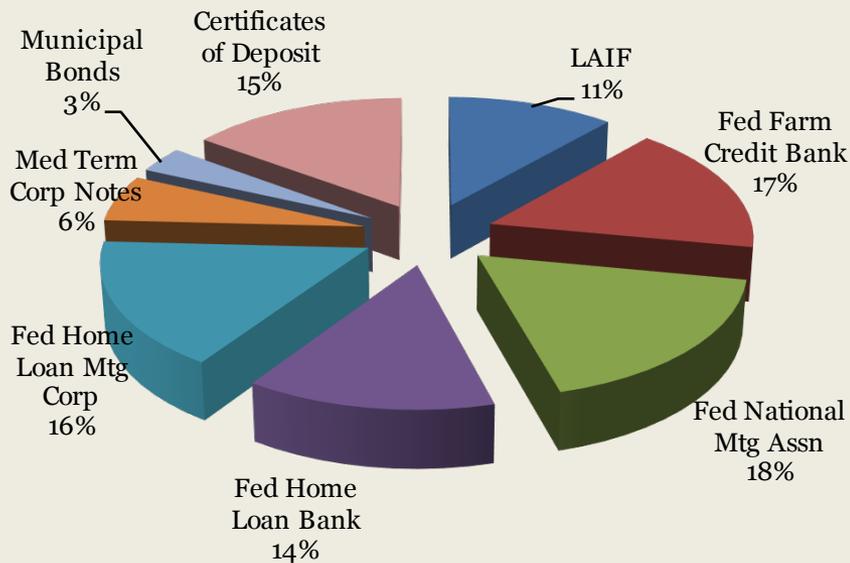
At March 31, 2015



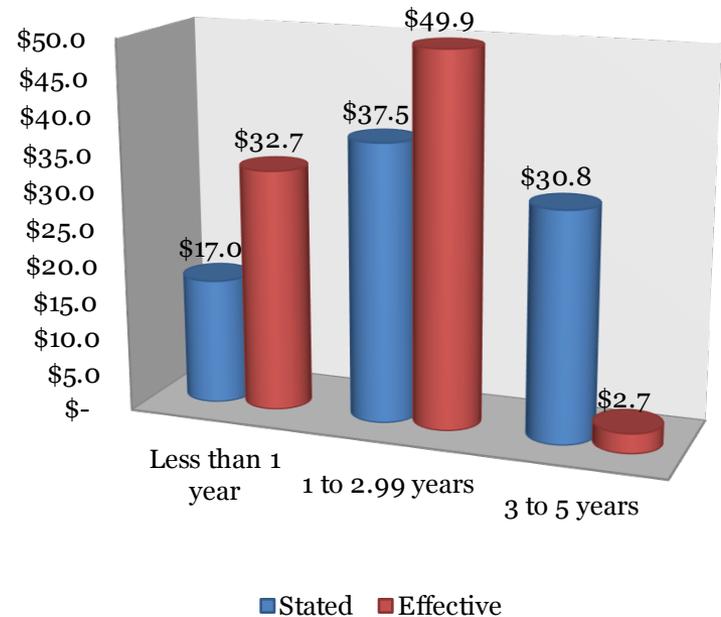
Additional Safety in Diversification and Effective Duration Lower than Stated Duration

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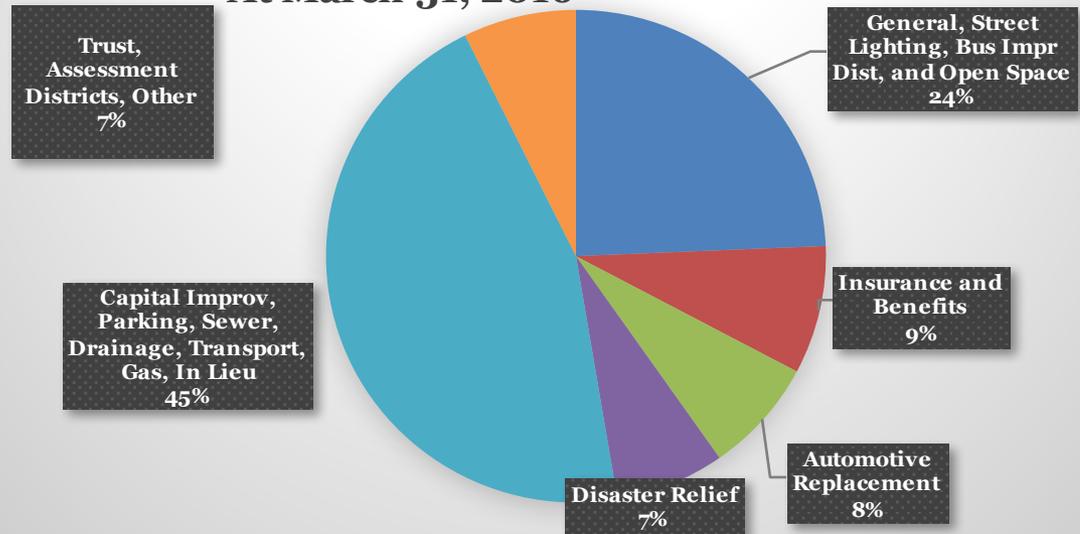
Investment Holdings and Diversification At March 31, 2016



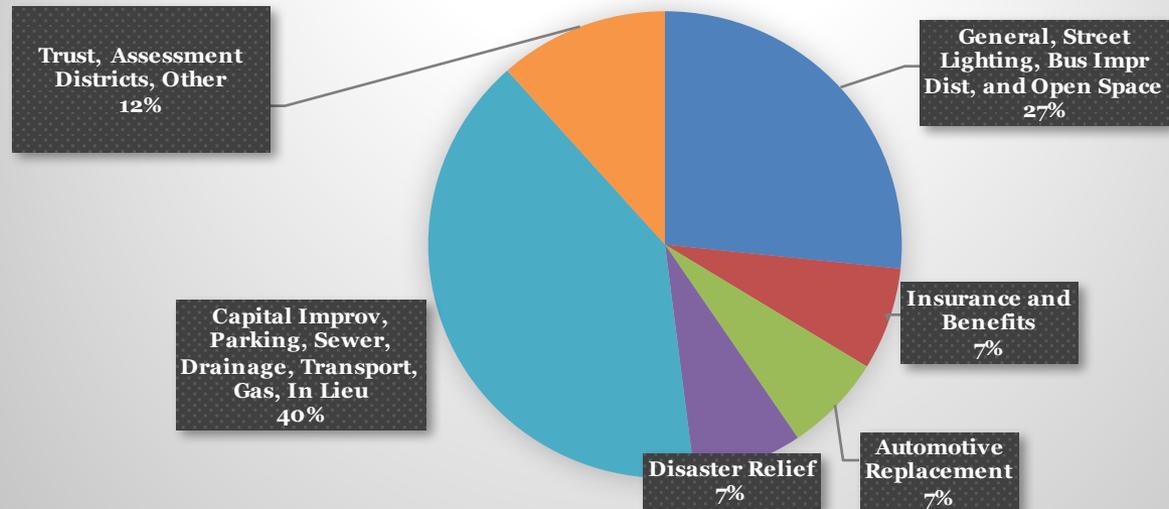
Stated vs. Effective Duration Based on Current Market Conditions (in millions)



Cash and Investments By Fund At March 31, 2016



At March 31, 2015



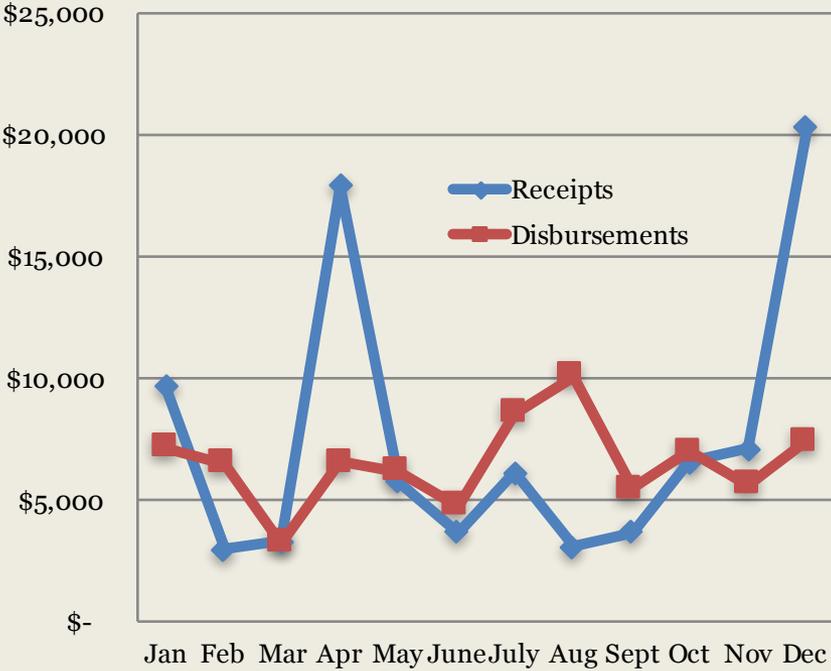
Status:

Cash and investments by fund are similar to last year along with the seasonal cash flows experienced due to the semi-annual property tax payments.

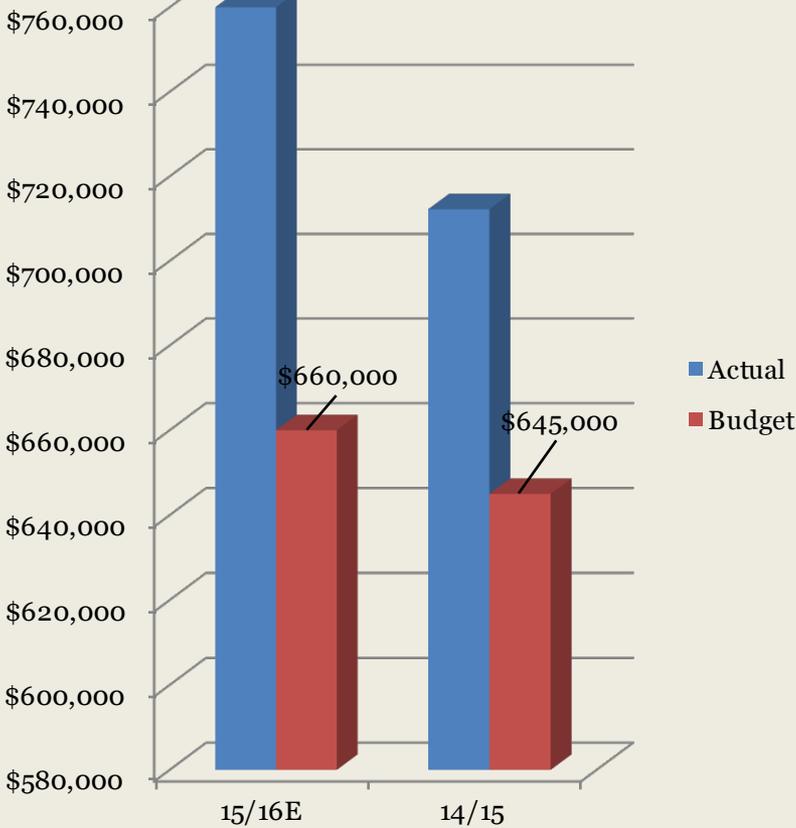
Cash Flow and Interest Income

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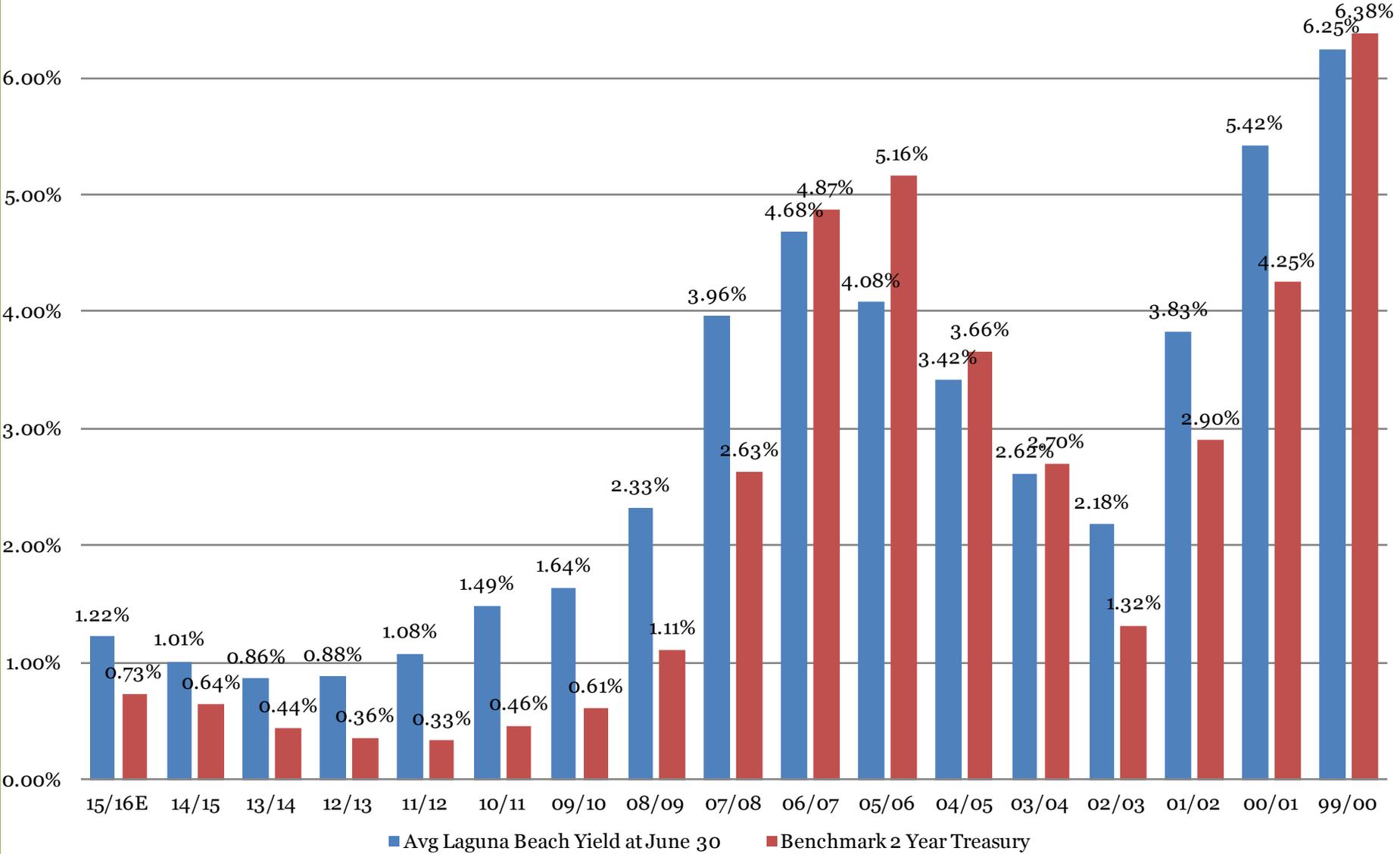
**Cash Flow 2015
(in thousands)**



**Interest Income
Current Year Estimate vs. Prior Year**



Yield Versus Benchmark Trend Fiscal Years 2015/16E to 1999/00



Economic Overview

Bill Blackwill, Managing Director
Stifel Investment Services



WHERE WE'VE BEEN

WHERE WE ARE

WHERE WE'RE GOING

Economic Overview - Where We've Been

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- 6 – 7 years since the financial crisis
- Equities have recovered nicely
- Economy: slow but fairly steady growth
- Employment: slow but fairly steady improvement

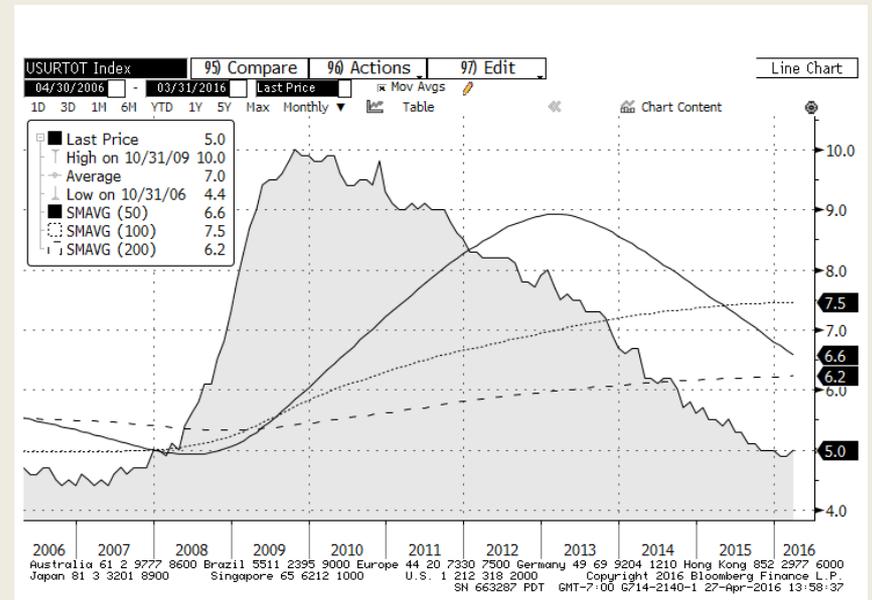
Economic Overview – Where We've Been

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Yield Trend



Unemployment Trend



Economic Overview – Where We've Been

Dow 20-Year Trend

(10)



Economic Overview - Where We're Now

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- GDP growth is up only .5% in Q1 2016
- Businesses remain hesitant to invest in equipment and structures
- Residential investment is strong
- Global economies very challenged: Europe, Japan, China, Portugal, Ireland, Greece, Spain
- Consumer spending deteriorating despite low fuel prices, good hiring and low borrowing costs
- Interest rates are very low, global interest rates are even lower
- Only 1 increase in Fed Funds is forecasted by the market over the next 12 months, even though the fed had indicated more is possible

Economic Overview - Where We're Going

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- Inflation seems to be slowly picking up toward the Fed's desired target of 2%
- Global economies and rates are a big question mark
- Slower domestic growth expected
- Lower asset returns and low interest rates expected to continue

Laguna Beach Discussion Points

Improving Safety and Returns

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Rightsizing Portfolio Risk for Laguna Beach

- Quality - higher than required by law. Higher than Laguna Beach County Water District.
- Extending Weighted Average Maturity (WAM) without a 5-year forecast is risky.
- Internal controls include outside auditor review every other year, delivery vs. payment settlement and limited bank transfers.

Discussion On Increasing Investment Choices (and diversification)

- Premium bonds may have higher yields but also present accounting challenges.
- Supranational securities were authorized two year ago but none have been purchased. The next slide has an overview of the securities from the 2016 CMTA Conference
- Should the Orange County Investment Pool be examined as an alternative to LAIF
- Money market mutual funds have not been an authorized investment for the City for approximately 5 years. Should they be reconsidered for bond proceeds?

	World Bank <i>(level 1 asset same as US Treasuries)</i>	Federal Farm Credit Banks	Federal Home Loan Banks	Freddie Mac
Mission	Provide global development project financing and expertise that improve living standards in member countries	Fund US agriculture and rural communities	Provide liquidity to financial institutions to support housing and community development	Support liquidity and stability of US mortgage markets
Credit Ratings	Aaa/AAA Moody's/S&P	Aaa/AAA/AA+ Moody's/Fitch/S&P	Aaa/AA+ Moody's/S&P	Aaa/AAA/AA+ Moody's/Fitch/S&P
Link to Government	Government ownership (188 member governments. US largest a member with 17% ownership (only country with veto authority))	GSE - Government charter	GSE - Government charter and \$4 Billion US Treasury credit facility	GSE - Government Sponsored Enterprise
Regulator	Collective governance system framework established by the Bretton Woods Agreements Act (22 USC 286 designating the IBRD under US law	Farm Credit Administration (FCA)	Federal Housing Finance Agency (FHFA)	Federal Housing Finance Agency (FHFA)
Total Assets YE 2015	\$343 Billion	\$303 Billion	\$969 Billion	\$2 Trillion
Capital Requirement	N/A	7% Perm. Capital Ratio 7% Total Surplus Ratio 3.5% Core Surplus Ratio	4% Capital-to-Assets	Subject to Senior Preferred Stock Purchase Agreement (\$141 Billion available from Treasury)
Capital Ratio	25.1% Equity-to-Loans	16% Capital-to-Assets	5.1% Capital-to-Assets	N/A (in conservatorship - spread curve has flattened)
Debt Outstanding YE 2015	\$168 Billion	\$243 Billion	\$905 Billion	\$418 Billion
Market Access	DNs - daily(window) Benchmark Bullets - syndicate Bullets/Callables/Floaters/Structured Notes - daily negotiated Has a buy-back program	DNs - daily (window) Bullets/Callables/Floaters - daily auctions/negotiated Designated Bonds - Syndicate	DNs - daily(window) and twice weekly auctions Benchmark Bullets - syndicate/auctions TAPs and Callables daily auctions Bullets/Callables/Floaters/Structured Notes - daily negotiated	DNs - daily(window) and weekly auctions Bullets/Callables/Floaters - daily auctions/negotiated Reference Notes - Syndicate/ Auctions (dates pre-determined) STACRs - Syndicate