



Lake Havasu City

Lake Havasu City
Council Chambers
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Date	Ver.	Action By	Action	Result
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COUNCIL COMMUNICATION

TO: Honorable Mayor and Council
FROM: Tabatha Miller, Administrative Services Director
Sandy McCormack, Senior Accountant

SUBJECT:
Investment Report at September 30, 2017

FUNDING SOURCE:
N/A

PURPOSE:
To present the September 30, 2017 Investment Report to Council.

BACKGROUND:
This investment report conforms to the City's adopted Investment Policy. The investment objectives of the City include safety, liquidity and yield - in that order. Standards of care as described in the Investment Policy have been used in making investment decisions for the City. Investments are purchased with the intention to hold to maturity, following a five-year ladder plan. Additionally, per policy, securities are held by an independent third-party custodian.

As of September 30, 2017, the weighted average rate of return for the City's investment portfolio (excluding LGIP and JPMorgan Chase) was 1.37 percent. As a point of comparison, the current yield for the Arizona State Treasurer's Local Government Investment Pool (LGIP) 700, which invests in medium-term securities backed

by the U.S. Government, was 1.99 percent for the month ending September 30, 2017. The LGIP portfolio manager had been accumulating cash until the end of August waiting for interest rates to rise. At the beginning of September, he purchased fixed-income securities with higher rates than previously held causing the rates to reflect higher than typical earnings, last month was 1.31 percent. The LGIP's Pool 700 holdings are very similar to those of the City's investment portfolio and therefore, provide a good benchmark for comparison.

The City's portfolio will likely experience a similar bump in earnings in the next two months, when it receives an influx of cash from the \$6 million repayment of the City's prepayment of the 2018 PSPRS contribution and \$11 million worth of securities yielding rates between .85 and .90 percent mature. There is also a possibility of up to \$6 million in securities being called in November, these securities bear interest at 1.0 to 1.05 percent but only have six months remaining till maturity, making them more likely to be called. More recently purchased securities in the City's ladder are yielding 1.75 to 2.0 percent earnings.

Economic growth remained consistent throughout September with subtle rebalancing between consumption and investments. There have been strong gains in employment, manufacturing and consumer confidence. It's uncertain what economic impacts from the natural disasters will occur in the upcoming year along with the selection process of a new Federal Reserve Chair person. The Federal Reserve has raised interest rates three times since December pushing the benchmark rate to a range of 1 percent to 1.25 percent. Many analyst and policy makers expect one more rate hike in December and three in 2018, based on the strengthening U.S. economy. A small uptick in the 10-Year Treasury at the end of September also indicates that some bond traders are starting to price bonds based on the end of global easing, which has kept yields low since 2008. All of this indicates continued slow and steady growth in interest rates and yields.

COMMUNITY IMPACT:

No direct impact. Indirect impact to the community is an increase or decrease in investment earnings based on the market environment which help fund government and enterprise activities.

FISCAL IMPACT:

N/A

ATTACHMENTS:

City Council Investment Report at September 30, 2017

SUGGESTED MOTION:

N/A