



City of Palos Verdes Estates

Fourth Quarter and Annual Cash and Investment Report June 30, 2020

PORTFOLIO AT A GLANCE	FYE6/30/19	FYE6/30/20
Total Cash & Investment Balance	28,857,711	30,215,526
Weighted Avg Purchase Yield (Invested Assets)*	2.16%	1.87%
Weighted Avg Maturity (Invested Assets)*	2.32 yrs	**3.03 yrs
* Excludes pooled & money market accounts		**1.51 yr to first call
Est. Interest Income <i>Collected</i>	472,290	559,026

BACKGROUND

This Treasurer's report is presented to the City Council in accordance with California Government Code 53646. Additionally, as required by City's Investment Policy, Sections 8 and 17, the investment portfolio and this Quarterly and Annual Report have been reviewed by the City Treasurer and the Investment Policy Advisory Committee (IPAC). The IPAC consists of the following members:

- Brad Boyd, Citizen member
- Jeff DeLarme, Citizen member
- Vacant: City Finance Director (ex officio)
- Victoria Lozzi, City Council member, former Treasurer (ex officio)
- Elizabeth (Liz) Ying, City Treasurer, Chairperson

CERTIFICATION

At June 30, 2020, the City's cash and investment portfolio totaled \$30.2 million, higher than Q3 balances of \$28.6 million, due to April tax receipts.

The portfolio is in compliance with the City's FY 2020-21 Investment Policy and with California Government Code Section 53601.

Although the full impact of the COVID crisis on the City's finances is not yet fully quantified, we believe that there is sufficient cash flow from liquid and maturing securities, bank deposits, and anticipated revenues to meet the City's forecasted expenditures for the next six months.

CRISIS ACTIONS:

- Convened Investment Policy Advisory Committee (IPAC) meetings five times since March,
- Worked with Staff to understand COVID's impact on City's cash flow and liquidity needs,
- Determined a higher liquidity target and otherwise, locked in yields where possible,
- Received Council approval to expand the City's Investment Policy to mirror investments permitted by the California Government Code, thus providing both flexibility and timeliness to manage during the current market volatility,
- Added a new broker-dealer, with expanded capabilities,
- Began purchases in the secondary negotiable CD and municipal market, vs. historical reliance on only the new-issue Agency and CD market,
- Prior to the crisis, activated on-line access with service providers.

STRATEGY:

- Continue to work with Staff to refine cash flow projections and liquidity needs.
- Maintain higher liquidity level, as an abundance of caution, and to preserve investment flexibility,
- Continue to ladder term securities, to hedge against further rate decline, while balancing liquidity needs and yield objectives,
- Consider additional asset classes,
- Continue to prioritize 1) Safety, 2) Liquidity and 3) Yield.

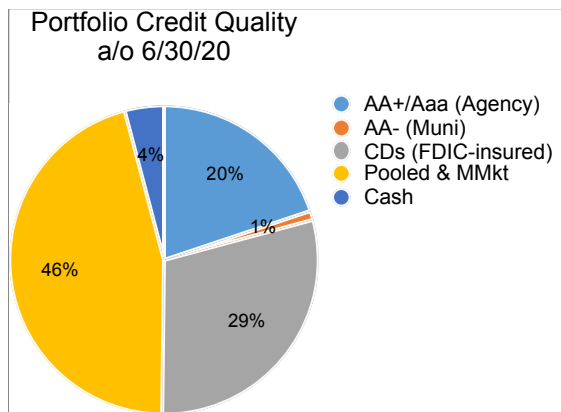


EXECUTIVE SUMMARY

The portfolio is managed with the priorities of 1) safety, 2) liquidity and 3) yield.

Safety: The City seeks to mitigate credit risk by limiting purchases to the safest types of investments. The City's \$30.2 million portfolio is comprised of:

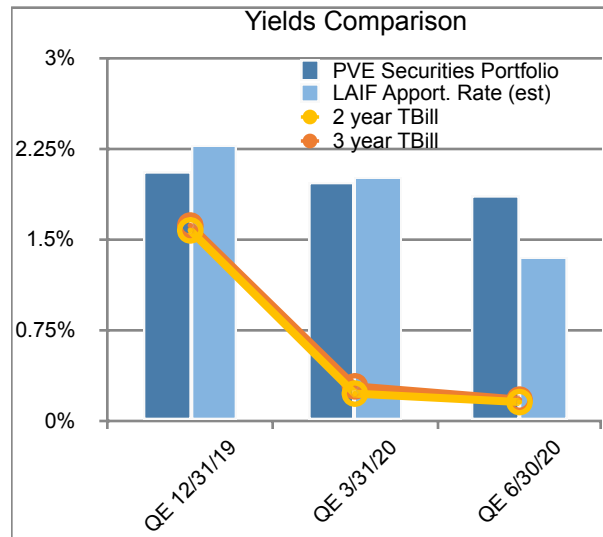
- \$1.6 million of cash in the Union Bank Demand Deposit Accounts and Money Market Account.
- \$13.5 million in pool accounts, including \$11.9 million in the California State's Local Agency Investment Fund (LAIF) and \$1.6 million in the Los Angeles County Investment Pool (LACIP). While neither are SEC-regulated money market funds, nor rated by credit rating agencies, they are subject to the California Government Code sections 16429, 16430, 53601 and 53635.
- \$8.9 million in FDIC- or NCUA-insured CDs,
- \$6.0 million in Agency securities which carry an implicit government guarantee and are held in the City's Union Bank Custody account, and
- \$0.3 million in two municipal securities, both of which are rated AA-, and are also held in the Custody account.



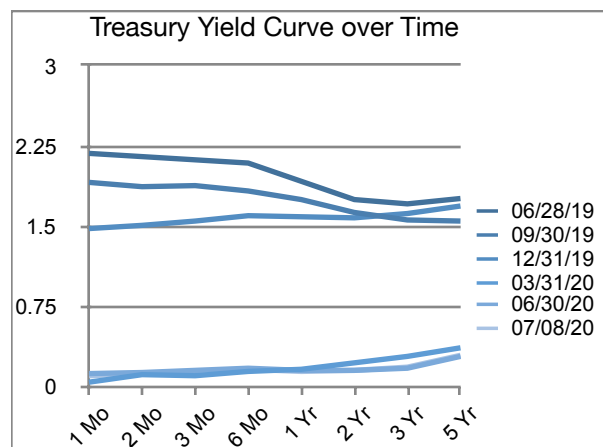
Liquidity: Liquidity is managed utilizing pooled funds with same or next day liquidity, in combination with maturing securities and forecasted revenues. At 6/30/20, the City held \$15.1 million in cash and same/next day liquidity, and \$1 million in securities maturing within six months. The pandemic has resulted in unanticipated expenses, and will likely reduce the City's concessions revenue, licensing and

development fees. Longer term expectations include lower property tax receipts and higher pension obligations due to anticipated shortfall in CALPERS' returns. According to Finance Department projections, with \$3.7 million of anticipated tax and other revenue (excluding December property tax receipts), and including approximately \$1.5 million of net COVID impact, we expect to meet the City's projected six months expenditures of \$13.2 million.

Yield: As of 6/30/20, the weighted average purchase yield of the portfolio, excluding pooled and money market accounts, is 1.87%. LAIF reported a 1.36% apportionment rate for the quarter, although this is likely subject to revision. For comparison the 2 and 3 year Treasury Bill rates at 6/30/20 were 0.16-0.18%.



Overall, we expect yields to fall further due to early call redemptions and maturities of higher yielding investments, due to the lower yields of new investments, and as a result of declining yields generated by pooled funds.





PORTFOLIO OVERVIEW

(as of 6/30/20, unless otherwise stated)

Asset Class	Amortized Book Value*	Market Value*	Book Value %	Policy Max
Cash	1,239,778	1,239,778	4.1%	100%
M Mkt	279,271	279,271	0.9%	100%
Pool	13,532,960	13,532,960	44.8%	100%
Govt Oblig	6,000,000	6,025,660	19.9%	100%
Muni Oblig	287,689	289,435	1.0%	100%
CDs	8,875,827	9,152,084	29.4%	30%
Total	30,215,526	30,519,188	100.0%	

* Market Value for government securities and CDs are provided by Union Bank a/o 6/30/20 and assumed accurate. Pooled Funds are assumed at book value. Cost Basis reported by Union Bank, adjusted for amortization.

At 6/30/20, market value of the portfolio totaled \$30.5 million, showing an unrealized gain of \$303,662 up from \$140,534 in the previous quarter, as market rates trended downward. Since the City's investment philosophy is to hold investments to maturity whenever possible to reduce market risk, full-face (par) value is expected and no realized gain or loss of funds is anticipated.

INCOME

Interest COLLECTED	FY 18-19	FY 19-20
Govt Obl. + CDs	331,689	355,961
LAIF	101,277	194,469
JPA Camp	0	5,249
LACIP (est.)	39,179	3,205
MMkt	144	142
TOTAL \$	472,290	559,026

Interest EARNED	FY 18-19	FY 19-20	FY 20-21
Budget	255,200	337,900	240,000
Actual	502,309	TBD	Current year

PORTFOLIO COMPOSITION

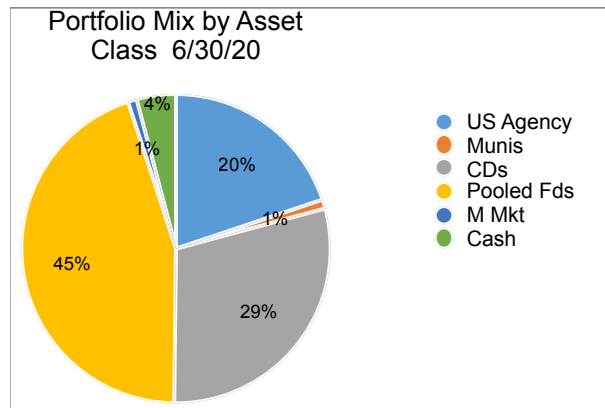
City's investment portfolio is governed by California Government Code Section 53601, and by the City's Investment Policy. On May 12, the City Council reviewed and adopted the FY 20-21 Policy, which now mirrors the Code, providing more portfolio management flexibility.

At 6/30/20, pooled funds, primarily LAIF, constituted 45% of the portfolio. Liquidity is higher than our optimal target due to:

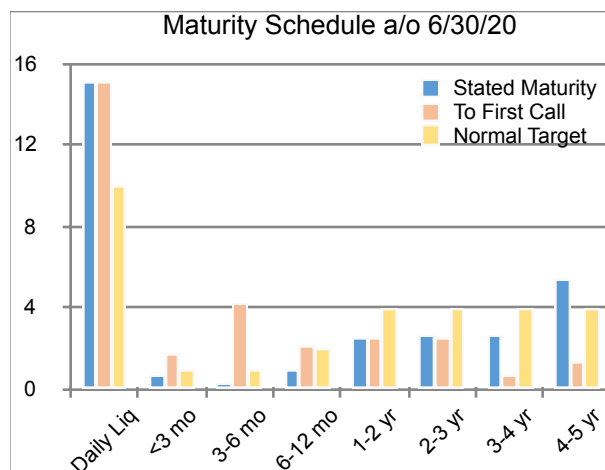
- 1) Seasonality, and the need to maintain liquidity to ensure expenses can be met prior to property tax receipts in mid-December,
- 2) Unquantified COVID impact, which dictates higher liquidity target, and
- 3) Outsized LAIF yields relative to securities investment opportunities, due in part to the lag effect from higher yielding investments in the pool, and due in part to additional interest earned by LAIF on its CalPERS Supplemental Pension Payment and on the Wildfire Fund loans.

During the quarter, we invested an additional \$1.5 million the LACIP pool, to diversify our exposure to LAIF, as well as their service providers.

FDIC-insured CDs and US Agency securities make up the remaining bulk of the portfolio.



MATURITY SCHEDULE





The maximum maturity allowable by both the California Government Code and the City's Investment Policy is five years.

Securities maturing in the 4-5 year range are higher than our target, however, assuming that the current rates persist, \$3 million in this category will likely be called in the next six months. Assuming that securities are called at the earliest option date, the weighted average maturity (WAM) of the securities portfolio is 1.5 years, vs 3.0 years, using the stated maturity: As such, WAM is lower than our historical 2.5 year target.

ACTIVITY

Investment activity is shown in the chart. Initially, CDs provided the best return, as the pandemic-related flight-to-safety devastated Agency yields. However, the California Government Code and the City's Investment Policy limits CDs to a 30% portfolio maximum, irrespective of whether they are within the \$250,000 FDIC-insured limits or not. As a result, and with the expanded permitted investments allowed by the new FY 20-21 Policy, we began purchases in the municipal asset class, resulting in holding two issuers, both rated AA-

Date	Desc	Asset Name	PAR	PX	Purch Yield
4/17/20	FULL CALL	FEDERAL FARM CR BKS 1.980% 4/17/23	(1,000,000)	100.00%	1.98%
4/27/20	FULL CALL	FNMA NT 1.500% 7/27/21	(1,000,000)	100.00%	1.50%
4/27/20	MAT	MORGAN STANLEY C/D 2.650% 4/27/20	(250,000)	100.00%	2.65%
4/28/20	PUR	AMERICAN EXPRESS NAT 1.000% 4/28/23	248,000	100.00%	1.00%
4/29/20	PUR	STATE BK INDIA YC/D 1.600% 4/29/25	248,000	100.00%	1.60%
4/30/20	PUR	CENTERSTATE BK C/D 1.050% 4/30/24	247,000	100.00%	1.05%
5/7/20	PUR	PINNACLE BK C/D 0.900% 5/09/22	248,000	100.00%	0.90%
5/7/20	PUR	CAPITAL ONE C/D 1.450% 4/22/25	248,000	101.59%	1.12%
5/8/20	PUR	HSBC BK USA NAT S/U 1.000% 5/08/23	248,000	100.00%	1.00%
5/29/20	PUR	FLAGSTAR BK FSB TROY 0.800% 5/29/25	248,000	100.00%	0.80%
6/1/20	MAT	BMO HARRIS BK NATL 2.800% 6/01/20	(250,000)	100.00%	2.80%
6/9/20	PUR	CALIF ST TAX REV 2.250% 10/01/23	175,000	104.06%	1.00%
6/25/20	PUR	ORCUTT CALIF UN SCH 1.000% 2/01/25	105,000	100.68%	0.85%

MARKET OUTLOOK

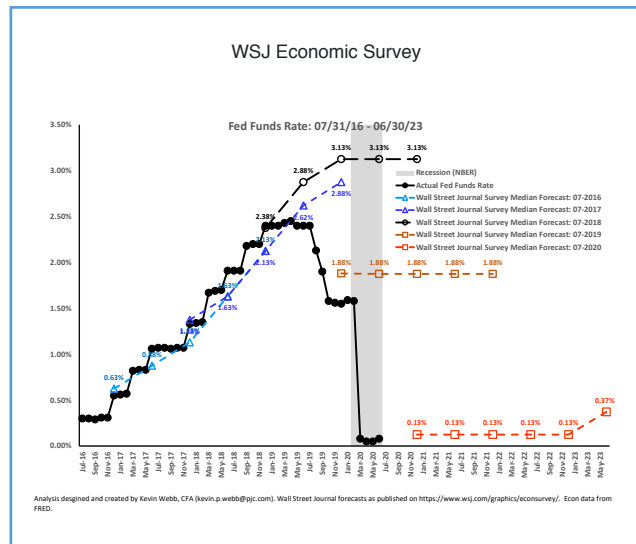
Indicator	Recent results
Growth	1Q GDP down by -5.0%
Jobs	June unemployment rate = 11.1%, down from April 14.7%
Profits	2Q EPS down by -47.5% y/y
Inflation	June Headline: +0.6% y/y Core: +1.0% y/y
Rates	Fed Funds target = 0-0.25%, expected through 2022

Consensus is for a prolonged 2-3 year recession.

To stem the pandemic's economic impact, the US government provided multi-trillion dollar fiscal aid, including temporary assistance to individuals, companies and to state and local governments. As such, the US Debt/GDP ratio of 107.8% reported in January is expected to eventually exceed post WWII leverage of 118.9%.

In addition, the Fed has cut its target fed funds rate to 0-0.25%, committed to unlimited asset purchases and implemented several lending facilities to foster liquidity and provide credit access. Furthermore, the Fed has provided forward guidance that it will keep rates low "until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." The median fed funds rate projection, as measured by the "dot plot," implies no rate adjustment through 2022.

WSJ Economic Forecasting Survey, a group of 60 economists, anticipates similar outcomes.





PORTFOLIO CHALLENGES AND RISKS

PORTFOLIO DETAIL (See Chart)

Challenges and risks include:

- Uncertainty surrounding second COVID wave, development and/or availability of vaccines and effective treatment, and
- COVID's near term impact to City's cashflow, including concessions, development fee, tax delinquencies, lower sales and gas tax receipts, 1x COVID-related expenditures,
- COVID's longer term effect on PVE property tax re-valuation, CalPERS liability,
- Geo-political tensions,
- Recession and low rate environment, and unlikely, but possible negative interest rates, in contrast to,
- Possible medium term inflationary risk, shown by recent wage and commodity price increases,
- PVE Portfolio: Concentration in daily liquidity and maturities under one year, and credit risk, including risk inherent in pooled funds.

PORTFOLIO STRATEGY

As stipulated in the City's Investment Policy, the portfolio is managed with the priorities of (1) safety, (2) liquidity and finally (3) yield.

- Continue to monitor investments, markets, COVID impact to PVE,
- Continue to work with Staff to refine cash flow projections and liquidity needs,
- Maintain higher liquidity: target \$3-4 million of liquidity margin at the City's forecasted cash low point just prior to December property tax receipts,
- Continue to ladder term securities, while balancing liquidity and yield considerations,
- Consider additional asset classes, including corporate medium term notes, if spreads justify risk, as independently determined by credit ratings, default risk probabilities and analyst buy-hold ratings.
- If market conditions warrant, consider utilizing cash balances to offset more bank fees.



Fourth Quarter and Annual Cash and Investment Report: June 30, 2020

CASH AND INVESTMENT DATA 6/30/2020																
Security	CUSIP	Credit Rating	Par Value	Amort. Book Value	Market Value**	Unrealized Gain/Loss	Coupon	Maturity Date	Purchase Yield	< 3 Mo	3-6 Mo	1-2 Yr	2-3 Yr	3-4 Yr	> 4 Yr	
Government Obligation																
FEDERAL FARM CR	3133ELUK8	AA+/Aaa/AAA	1,000,000	1,000,000	1,005,730	5,730	1.20%	03/25/25	1.80%						1,000,000	
FEDERAL HOME LN MTG	3134GUYU8	AA+/Aaa/AAA	1,000,000	1,000,000	1,006,740	6,740	1.85%	12/18/23	1.85%					1,000,000		
FEDERAL HOME LN MTG	3134GVEF1	AA+/Aaa/AAA	1,000,000	1,000,000	1,001,410	1,410	1.75%	02/28/25	1.75%			247,000			1,000,000	
FEDERAL HOME LOAN BA	3130AHE66	AA+/Aaa	1,000,000	1,000,000	1,004,500	4,500	2.00%	10/21/24	2.00%						1,000,000	
FEDERAL NATL MTG	3136GAUM3	AA+/Aaa/AAA	1,000,000	1,000,000	1,004,120	4,120	1.80%	11/25/24	1.80%						1,000,000	
FREDDIE MAC	3134GUBJ8	AA+/Aaa/AAA	1,000,000	1,000,000	1,003,160	3,160	2.00%	12/18/23	2.00%						1,000,000	
Municipal Obligation																
CALIF ST TAX REV	13063DDG0	AA-/Aaa/AAA	175,000	181,983	184,048	2,065	2.25%	10/01/23	1.00%					181,983		
ORCUTT CALIF UN SCH	685729JR7	AA-	105,000	105,707	105,387	-319	1.00%	02/01/25	0.85%						105,707	
CDS																
ALLY BK MIDVALE UTAH	02007GMN0		245,000	245,000	254,783	9,783	1.85%	01/17/23	1.85%				245,000			
AMERICAN EXPRESS NAT	02589ABJ0		248,000	248,000	252,846	4,846	1.00%	04/28/23	1.00%				248,000			
APEX BANK C/D	03753XAL4		247,000	247,000	251,088	4,088	1.50%	09/30/21	1.50%			247,000				
AXOS BK SD C/D	05465DAG3		249,000	249,000	257,859	8,859	1.60%	03/27/23	1.60%						249,000	
BANK LEUMI USA NEW	063248KR8		245,000	245,000	252,740	7,740	1.45%	03/31/23	1.45%						245,000	
BARCLAYS BK C/D	06740JKJ4		245,000	245,000	246,134	1,134	2.20%	09/16/20	2.20%	245,000						
BMW BK NORTH AMER SA	05580ATJ8		245,000	245,000	254,107	9,107	1.75%	01/10/23	1.75%						251,827	
CAPITAL ONE C/D	14042DR5		248,000	251,827	257,526	5,698	1.45%	04/22/25	1.12%			245,000				
CAPITAL ONE NA C/D	14042EMV8		245,000	245,000	245,642	642	2.30%	08/12/20	2.30%	245,000						
CENTERS STATE BK C/D	15201QDH7		247,000	247,000	252,767	5,767	1.05%	04/30/24	1.05%		250,000				247,000	
COMPASS BK BIRMGHGA	20451PWF9		250,000	250,000	253,243	3,243	3.10%	12/04/20	3.10%							
DISCOVER BK C/D	254672N46		245,000	245,000	249,234	4,234	1.75%	11/09/21	1.75%			245,000				
ENERBANK USA C/D	29278TNE3		249,000	249,000	261,515	12,515	1.70%	02/28/25	1.70%						249,000	
FIRST NATL BK DAMARI	32117BCW6		250,000	250,000	260,588	10,588	2.75%	02/28/22	2.75%			250,000				
FIRST TECHNOLOGY FED	33715LDV9		250,000	250,000	263,988	13,988	3.00%	07/05/22	3.00%						250,000	
FLAGSTAR BK FSB TROY	33847E3L9		248,000	248,000	249,662	1,662	0.80%	05/29/25	0.80%						248,000	
GOLDMAN SACHS C/D	38148PP24		250,000	250,000	251,110	1,110	1.90%	09/28/20	1.90%	250,000						
HSBC BK USA NAT S/U	44329ME41		248,000	248,000	249,955	1,955	1.00%	05/08/23	1.00%						248,000	
KERN SCHS FED CR UN	49228XAB6		250,000	250,000	261,073	11,073	2.80%	03/14/22	2.80%						250,000	
LAKELAND BK	511640BC7		248,000	248,000	253,796	5,796	1.15%	03/30/23	1.15%						248,000	
MB FINL BK C/D	55266CZE9		250,000	250,000	255,255	5,255	2.70%	04/26/21	2.70%		250,000					
MEDALLION BK UTAH	58404DCX7		250,000	250,000	269,043	19,043	3.40%	12/07/22	3.40%						250,000	
MERRICK BK C/D	59013JT25		250,000	250,000	255,270	5,270	2.70%	04/27/21	2.70%						250,000	
MORGAN STANLEY BK N	61690JQU7		245,000	245,000	259,480	14,480	1.90%	12/26/24	1.90%						245,000	
PEOPLES UNITED BANK	712700QS8		245,000	245,000	252,301	7,301	2.05%	02/08/22	2.05%			245,000				
PINNACLE BK C/D	72345SKS9		248,000	248,000	251,202	3,202	0.90%	05/09/22	0.90%						248,000	
SALLIE MAE BK S/LT	7954502C8		250,000	250,000	260,790	10,790	2.65%	04/04/22	2.65%						250,000	
STATE BK INDIA YC/D	856285TF8		248,000	248,000	259,282	11,282	1.60%	04/29/25	1.60%						248,000	
TEXAS EXCHANGE C/D	88241TGX2		249,000	249,000	252,441	3,441	1.00%	03/25/22	1.00%						249,000	
THIRD FED SVGS & LN	88413QB33		250,000	250,000	259,133	9,133	2.50%	01/31/22	2.50%						250,000	
TIAA FSB JACKSONVILLE	87270LBU6		250,000	250,000	273,400	23,400	3.00%	02/22/24	3.00%						250,000	
UBS BANK USA SALT LA	90348JFN5		250,000	250,000	268,155	18,155	3.35%	11/07/22	3.35%						250,000	
VISION BK IOWA C/D	92834C0B6		245,000	245,000	250,461	5,461	1.75%	11/30/21	1.75%						245,000	
WELLS FARGO BK C/D	9497485V3		245,000	245,000	248,401	3,401	1.75%	06/17/21	1.75%			245,000				
WELLS FARGO NATL BK	949495AQ8		245,000	245,000	255,101	10,101	1.90%	01/17/23	1.90%						245,000	
WORLDS FOREMOST BK	981571CQ3		200,000	200,000	202,718	2,718	1.70%	06/09/21	1.70%						200,000	
Total Investments			15,152,000	15,163,517	15,487,179	303,662				740,000	250,000	945,000	2,479,000	2,723,000	2,678,983	5,347,534
Pooled Investment Funds**				13,532,960	13,532,960										15,163,516	
LAI				11,885,278	11,885,278			Q4 Apportionment	1.36%							
L.A. County Pooled Inv. Fund				1,647,683	1,647,683			May 2020 Earnings Rate	0.98%							
Cash				1,519,049	1,519,049											
Union Bank Money Market				279,271	279,271											
Union Bank Checking				1,199,796	1,199,796											
Parking Citation & AFLAC				39,983	39,983											
Total Investment			15,152,000	15,163,517	15,487,179	303,662		Avg Purchase Yield	1.87%							
Government Obligation			6,000,000	6,000,000	6,025,660	25,660									1,51	
Municipal Obligation			280,000	287,689	289,435	1,746									4.18	
Negotiable Certificate of Deposit			8,872,000	8,875,827	9,152,084	276,256									3.75	
Total Cash & Investments:				30,215,526	30,519,188										2.23	2.18

** Pool Market Values are assumed at \$1 NAV. Pool fund portfolio information available upon request.