

# Investment Advisory Committee Meeting (IAC)

## Minutes

### Wednesday, December 3, 2014

#### Members present

Dr. Scott Below, *Chair*; Tilwanda Steinberg, *Co-Chair*

#### City Staff present

Calvin Mercer, *City Council Liaison*; Barbara Lipscomb, *City Manager*; Christopher Padgett, *Assistant City Manager*; Bernita Demery, *Financial Services Director*; Kimberly Branch, *Senior Financial Services Manager*

The meeting of the Investment Advisory Committee took place at 12:00 noon on Wednesday, December 3, 2014 in City Hall Conference Room 337.

#### 1. Guest Speaker – David Silvas Yearly Review

David Silvas was available to present to the Committee the annual results of the City’s funds in their 1-3 and 3-5 years non-callable agency portfolios and treasury. Mr. Silvas provided a history of the City’s relationship with the C2 Group. The strategy identified of the index is to try to achieve the market rate of return as compared to a benchmark return, eliminate performance risk, and rebalance the portfolios monthly to reflect the change in the index. As in the past, Merrill Lynch’s (ML) 1-3 and 3-5 year benchmarks were the recommended benchmark by the Government Finance Officers Association (GFOA) to compare market rate of return. It was discussed that other municipalities/counties who did not feel comfortable moving their funds into longer termed investments maintained their funds in the States pool (NCCMT). In maintaining the City’s portfolio to the benchmark about 7% of the total portfolio is being rebalanced monthly.

Mr. Silvas pointed out during his presentation that \$5.09 million has been earned in investment income since the inception of these portfolios. As a point of comparison, Mr. Silvas showed the NCCMT annual rates of return as compared to the Merrill Lynch benchmark for the respective portfolios. NCCMT has not had any negative returns since 1999 and shows an average rate of return of 2.21%. The Merrill Lynch benchmark had average rates of return for the 1-3 year agency and 3-5 year agency of 3.91% and 5.52%, respectively.

For the period of June 30, 2013 through June 30, 2014, the amount of interest earned and realized gains and losses are below:

<u>Portfolio</u>	<u>Interest Received</u>	<u>Realized/Unrealized Gain/Loss</u>	<u>Investment Income (MV)</u>
1-3 Year (A/B)	\$ 306 439.66	\$ -247,592.82	\$ 106,083.33
3-5 Year (A/B)	185 397.51	19,432.36	169,609.61
3-5 Year Treas.	<u>109,554.64</u>	<u>-17,284.01</u>	<u>94,478.51</u>
	\$ 601,391.81	\$ -245,444.47	\$ 370,171.45

Mr. Mercer asked if the City could save costs if the rebalancing occurred quarterly instead of monthly. Mr. Silvas indicated that costs were already mitigated during the monthly rebalancing meeting due to having three to four brokers compete for the buys and sales. Little margin is left to be gained.

Mr. Mercer also questioned how the City pays the C2 group 10 basis points per asset value. The C2 Group bills the city quarterly in advance.

**2. Review of Minutes from the August 6, 2014 IAC meeting**

The minutes were approved without exception by the committee.

**3. Review of September 30, 2014 Investment Reports**

The Committee reviewed the quarterly report for September 30th. Nothing unusual/significant occurred during the quarters. Mrs. Demery discussed the narrative and explained that the new tax rate approved as of July 1, 2014 was the reason for the cash portfolio increase as of September 30<sup>th</sup>.

Mr. Below asked if there was any flexibility in the money within the 1-3 Agency Index that could be moved into CD's, etc in preparation of possible rising rates. Mrs. Demery let the Committee know she would investigate this option and have a discussion with a Wells Fargo representative to see if there are any other strategies other local governments were using that could assist in optimizing rates. Mrs. Steinberg suggested that in discussions with Wells Fargo investigate very closely to ensure the investment options are not risky and outside of City policy would allow. She mentioned banks have to hold municipal funds in escrows and cannot invest them in anything. Ms. Demery also mentioned the Town of Cary worked closely with the representative and saw pretty good returns.

Mr. Below spoke briefly to the European market which had much lower returns. The US Treasury markets have increased from overseas. As a heads-up to the Committee Ms. Demery mentioned that there were several projects that were coming into play that would impact the fluctuations in the cash portfolio. Additionally, in the future as rates increase the margins of income will begin to narrow.

**4. Next Meeting**

Next meeting scheduled for **Wednesday, April 22, 2015.**