



MEMORANDUM

Finance Department

DATE: March 12, 2025

TO: Mayor and Councilmembers

DocuSigned by:

THROUGH: Ned Thomas, City Manager

Ned Thomas DocuSigned by:

FROM: Luz Cofresí-Howe, Director of Finance

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Luz Cofresí-Howe

SUBJECT: Investment Portfolio Status Report for the Quarter Ended December 31, 2024

Overview:

In compliance with the State of California Government Code section 53646 (b)(1) and the City's Investment Policy, the City of Milpitas Investment Report for the period ended December 31, 2024 is submitted for City Council review. The City's Investment Policy requires that the report be submitted to the City Council within 45 days of the end of each quarter. The investment portfolio is in compliance with the City's investment policy.

As shown in the table below, the City's investment program comprises a portfolio of securities professionally managed by the City's investment advisor, moneys invested in Local Agency Investment Fund (or "LAIF," an investment pool managed by the California State Treasurer), bond funds, and cash. The City's investment advisor actively manages a portfolio of securities designed to meet the City's Investment Policy objectives of safety, liquidity, and optimized return over time.

Investments and Cash	Par Value	Book Value	Market Value	Yield to Maturity
Investments				
Portfolio of Securities	287,850,902.99	286,238,937.82	283,070,123.12	3.74%
LAIF	47,865,558.11	47,865,558.11	47,865,558.11	4.48%
Total Investments	335,716,461.10	334,104,495.93	330,935,681.23	3.84%
Cash				
Bond Funds (Restricted)	17,783.36	17,783.36	17,783.36	0.00%
Cash	12,206,467.51	12,206,467.51	12,206,467.51	0.00%
Total Cash	12,224,250.87	12,224,250.87	12,224,250.87	0.00%
Accrued Interest			1,752,931.27	
Total Cash and Investments	347,940,711.97	346,328,746.80	344,912,863.37	3.83%



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Discussion:

The attached quarterly investment report provides an update on the current economic conditions, a summary of compliance with California Government Code and the City's investment policy, and a number of metrics to understand the current state of the City's investments in comparison to the previous quarter. Further, it includes a detail of the City's holdings as of December 31, including par, cost, book, and market values, yields, average maturity and duration, and unrealized gain/loss position. The attachment also includes transactions for the past quarter. As part of the overall investment program, the City funded an additional enhanced cash portfolio managed by the City's investment advisor to provide the City the opportunity to earn a higher yield than that offered at LAIF with its most liquid funds. This portfolio continues to perform as designed.

Recent economic data suggests continued growth fueled by a resilient consumer. Inflationary trends have subsided, but some components remain sticky, and core levels remain above the Fed's target. The labor market reflects improved balance between supply and demand for workers. While job creation has been robust, continuing jobless claims remain elevated. Given the economic outlook, gradual normalization of monetary policy and a steepening yield curve are expected.

As broadly anticipated, the Federal Open Market Committee (FOMC) reduced the Fed Funds Rate by 25 basis points to the range of 4.25- 4.50% at the December meeting. Although the cut was widely anticipated, market participants viewed the trajectory of rates in the SEP as 'hawkish.' Chair Jerome Powell reiterated previous statements indicating the economy is in a good place and that monetary policy is well positioned. The Fed released the quarterly Summary of Economic Projections (SEP), which now forecasts a higher central tendency of core inflation and a higher longer run Fed Funds forecast. The City's investment advisor's view is that the updated SEP reflects the continued resiliency of the US economy and the corresponding risk of inflation taking longer to reach the FOMC's two percent objective in 2025.

Total Investments and Cash:

The City's investments are well diversified by sector, issuer, and maturity. When including LAIF and cash, the City's investments total \$344,912,863 (including accrued interest) and have an average maturity of 2.23 years. The interest income the City's investments (including LAIF and cash) are expected to earn for the coming year as of December 31, otherwise known as the purchase yield to maturity of the portfolio, equaled 3.83%, which compares favorably to the purchase yield of 3.71% on September 30. The market yield, which can infer the reinvestment rate on the portfolio, was 4.38%.



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Portfolio of Securities:

The investment strategy of the City's professionally managed portfolio of securities is designed to enhance total return over long-term periods but focuses on achieving higher interest income through the investment of City funds in longer-duration securities. Interest income is generated by the yield of securities captured in the portfolio, and fair value appreciation is closely tied to forces such as supply and demand, market rates, and the general health of the economy. All investments are purchased with the intent to hold to maturity, but may be sold if fair value, credit quality, or liquidity may be enhanced safely. This quarter, the City's investment manager maintained the portfolio duration (a risk measure similar to average maturity) at 2.60 years, slightly longer than the duration of the City's performance measuring benchmark. As of December 31, the City's core portfolio of securities totaled \$248,443,746, including accrued interest. Its yield to maturity as of December 31 was 3.64% (vs. 3.39% three months prior) and its market yield was 4.48%. The portfolio maintained an average maturity of 3.08 years. Returns for the professionally managed portfolio are detailed in the attachment. The City's additional Liquidity Account totaled \$36,379,309 including accrued interest. Its yield to maturity was 4.39%, and its market yield was 4.29%. The yields for the Liquidity account are higher due to its strategy of investing in shorter-term securities to capture a temporary anomaly in the relationship between shorter-term and longer-term securities, known as an "inversion of the yield curve," where shorter-term investments are offering higher yields than longer-term investments. This inversion has been diminishing since late fall, and is anticipated to end gradually in 2025. This is due to the expectation that the Federal Reserve is anticipated to continue to lower the Fed Funds Target Rate, producing lower short-term market rates. As yields evolve, City staff, with the City's investment advisor's guidance, will reallocate funds to optimize for liquidity and return.

Cash:

As of December 31, 2024, the City is holding approximately \$12.2 million in cash. This amount includes \$ 17,783 in bond-related funds, which are held with US Bank, the City's fiscal agent. The remaining amount as well as revenues such as tax receipts will adequately cover the anticipated cash flow needs for the next six months. Cash flow requirements are continually monitored and are considered paramount in the selection of maturity dates of securities.

Summary:

The City's investment program continues to be well diversified and optimized for return. City staff continues to position funds so that all anticipated cash needs are easily met, and the City's reserves are more than adequate to meet unanticipated cash needs. Earnings have been competitive, and the City continues to achieve its objectives of safety, liquidity, and return.