



# Memorandum

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## Finance Department

**TO:** Mayor and Councilmembers

**THROUGH:** Ned Thomas, City Manager Signed by: Matt Cano  
83DE801D4B11402

**FROM:** Luz Cofresí-Howe, Finance Director

**SUBJECT:** Investment Portfolio Status Report for the Quarter Ended September 30, 2024

**DATE:** November 19, 2024

In compliance with the State of California Government Code section 53646 (b)(1) and the City Investment Policy, the City of Milpitas Investment Report for the period ended September 30, 2024 is submitted for City Council review. The City Investment Policy requires the Investment Report be submitted to the City Council within 45 days of the end of each quarter. While the investment portfolio itself follows the City investment policy, the Investment Report is late due to the new Finance Director familiarizing herself with the City’s overall investment program.

As shown in the table below, the City investment program comprises a portfolio of securities professionally managed by the City investment advisor Chandler Asset Management, moneys invested in Local Agency Investment Fund (LAIF, an investment pool managed by the California State Treasurer), bond funds, and cash. The City investment advisor actively manages a securities portfolio designed to meet the City 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	\$ 285,642,052.60	\$ 284,365,551.33	\$ 284,824,771.86	3.59%
LAIF	49,224,972.85	49,224,972.85	49,224,972.85	4.57%
Total Investments	\$ 334,867,025.45	\$ 333,590,524.18	\$ 334,049,744.71	3.73%
Cash				
Bond Funds (Restricted) <sup>1</sup>	30,516.52	30,516.52	30,516.52	0.00%
Cash <sup>2</sup>	11,300,996.71	11,300,996.71	11,300,996.71	0.00%
Total Cash	\$ 11,331,513.23	\$ 11,331,513.23	\$ 11,331,513.23	0.00%
Accrued Interest			1,443,038.72	
Total Cash and Investments	\$ 346,198,538.68	\$ 344,922,037.41	\$ 346,824,296.66	3.71%

<sup>1</sup> U.S. Bank

<sup>2</sup> Dreyfus (Successor Agency): \$7,201,494.42; JPM Chase: \$3,399,015.78; Receivables: \$700,486.51

TO: Mayor and Councilmembers  
THROUGH: Ned Thomas, City Manager  
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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 Investment Policy, and certain metrics to understand the current state of the City investments in comparison to the previous quarter. Further, the report details City holdings as of the respective quarter end, 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 and a glossary of terms.

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. Additionally, City staff sought and obtained Council permission to add local government investment pools (LGIP) as a permitted investment for the City investment program, and recently opened an account with California Asset Management Program (CAMP), a California-based LGIP, to diversify the City most liquid cash. City staff will be utilizing CAMP as opportunities arise.

Recent economic data suggests positive but slower growth this year fueled by consumer spending. While the consumer has been resilient, growing credit card debt, higher delinquencies, and a moderating labor market pose potential headwinds to future economic growth. Inflationary trends are subsiding, but core levels remain above the Federal Reserve Bank (Fed) target. Despite recent strong nonfarm payrolls increases, the labor market has been showing signs of cooling, reflecting an improved balance between supply and demand for workers. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, it is expected the economy will gradually soften, and the Fed will lower rates at a measured pace through this year, with the ability to move more aggressively should future economic data warrant.

The Federal Open Market Committee (FOMC) delivered the first rate cut of this easing cycle at the September meeting. Although a reduction in the Fed Funds Rate was widely anticipated, the magnitude was somewhat of a surprise, as market participants were split between whether the FOMC would cut by 25 basis points or 50 basis points. Chair Jerome Powell reiterated previous statements acknowledging that monetary policy has shifted into a more balanced approach, addressing price stability and full employment in tandem. The Fed released the quarterly Summary of Economic Projections (SEP) which now forecasts a substantially lower median Fed Funds Rate expectation among Fed Governors in 2025, due to lower inflation expectations and a higher projected unemployment rate.

## TOTAL INVESTMENTS AND CASH

City investments are well diversified by sector, issuer, and maturity. When including LAIF and cash, the City's investments total \$346,824,297 (including accrued interest) and have an average

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maturity of 2.19 years. The interest income the City investments (including LAIF and cash) are expected to earn for the coming year as of September 30, otherwise known as the *purchase yield to maturity* of the portfolio, equaled 3.71% which compares favorably to the purchase yield of 3.51% on June 30. The *market yield*, which can infer the reinvestment rate on the portfolio, was 4.04%.

### 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 investment manager maintained the portfolio duration (a risk measure similar to average maturity) at 2.58 years. As of September 30, the City's core portfolio of securities totaled \$250,317,231, including accrued interest. Its yield to maturity as of September 30 was 3.39% (vs. 3.11% three months prior) and its market yield was 3.89%. The portfolio maintained an average maturity of 3.03 years. Returns for the professionally managed portfolio are detailed in the attachment.

The City Liquidity Account totaled \$35,950,579 including accrued interest. Its yield to maturity was 4.99%, and its market yield was 4.73%. 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 is anticipated to end in the coming months as the Federal Reserve is anticipated to lower short-term rates. As yields evolve, City staff, with the City investment advisor's guidance, will reallocate funds to optimize for liquidity and return.

### CASH

As of September 30, 2024, the City is holding approximately \$11.3 million in cash. This amount includes \$30,517 in bond-related funds, which are held with U.S. Bank, the City 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 paramount in the selection of maturity dates of securities.

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## SUMMARY

The City investment program continues to be well diversified and optimized for return. City staff continues to position funds so all anticipated cash needs are easily met, and the City 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.



# INVESTMENT REPORT

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City of Milpitas | As of September 30, 2024

**CHANDLER ASSET MANAGEMENT** | [chandlerasset.com](https://chandlerasset.com)

**Chandler Team:**

For questions about your account, please call (800) 317-4747,  
or contact [clientservice@chandlerasset.com](mailto:clientservice@chandlerasset.com)

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# COMPLIANCE WITH CITY INVESTMENT POLICY

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## OBJECTIVES

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City of Milpitas | As of September 30, 2024

### Investment Objectives

The investment objectives for the City of Milpitas, in order of priority, are to provide safety to ensure the preservation of capital in the overall portfolio, provide sufficient liquidity for cash needs, and a market rate of return consistent with the investment program.

### Chandler Asset Management Performance Objective

The performance objective for the portfolio is to earn a total rate of return through a market cycle that is equal to or above the return on the benchmark index.

### Strategy

In order to achieve this objective, the portfolio invests in high-quality fixed income securities that comply with the investment policy and all regulations governing the funds.



## STATEMENT OF COMPLIANCE



City of Milpitas | Account #10762 | As of September 30, 2024

Rules Name	Limit	Actual	Compliance Status	Notes
<b>AGENCY MORTGAGE SECURITIES (CMOS)</b>				
Max % (MV)	100.0	2.1	Compliant	
Max % Issuer (MV; Agencies & Agency CMOs)	30.0	4.9	Compliant	
Max Maturity (Years)	5.0	4.3	Compliant	
<b>ASSET-BACKED SECURITIES (ABS)</b>				
Max % (MV; Non Agency ABS & MBS)	20.0	11.3	Compliant	
Max % Issuer (MV)	5.0	1.0	Compliant	
Max Maturity (Years)	5	4	Compliant	
Min Rating (AA- by 1)	0.0	0.0	Compliant	
<b>BANKERS' ACCEPTANCES</b>				
Max % (MV)	40.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Days)	180	0.0	Compliant	
Min Rating (A-1 by 1 or A- by 1)	0.0	0.0	Compliant	
<b>COLLATERALIZED TIME DEPOSITS (NON-NEGOTIABLE CD/TD)</b>				
Max Maturity (Years)	5.0	0.0	Compliant	
<b>COMMERCIAL PAPER</b>				
Max % (MV)	40.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Days)	270	0.0	Compliant	
Min Rating (A-1 by 1 or A- by 1)	0.0	0.0	Compliant	
<b>CORPORATE MEDIUM TERM NOTES</b>				
Max % (MV)	30.0	24.6	Compliant	
Max % Issuer (MV)	5.0	1.4	Compliant	
Max Maturity (Years)	5	4	Compliant	
Min Rating (A- by 1)	0.0	0.0	Compliant	
<b>FDIC INSURED TIME DEPOSITS (NON-NEGOTIABLE CD/TD)</b>				
Max Maturity (Years)	5	0.0	Compliant	

# STATEMENT OF COMPLIANCE



City of Milpitas | Account #10762 | As of September 30, 2024

Rules Name	Limit	Actual	Compliance Status	Notes
<b>FEDERAL AGENCIES</b>				
Max % (MV)	100.0	12.5	Compliant	
Max % Issuer (MV; Agencies & Agency CMOs)	30.0	4.9	Compliant	
Max Callables (MV)	20.0	0.0	Compliant	
Max Maturity (Years)	5	3	Compliant	
<b>LOCAL AGENCY INVESTMENT FUND (LAIF)</b>				
Max Concentration (MV)	75.0	0.0	Compliant	
<b>MONEY MARKET MUTUAL FUNDS</b>				
Max % (MV)	20.0	0.3	Compliant	
Max % Issuer (MV)	10.0	0.3	Compliant	
Min Rating (AAA by 2)	0.0	0.0	Compliant	
<b>MORTGAGE-BACKED SECURITIES (NON-AGENCY)</b>				
Max % (MV)	20.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Years)	5.0	0.0	Compliant	
Min Rating (AA- by 1)	0.0	0.0	Compliant	
<b>MUNICIPAL SECURITIES (CA, LOCAL AGENCY)</b>				
Max % (MV)	30.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Years)	5	0.0	Compliant	
Min Rating (A- by 1)	0.0	0.0	Compliant	
<b>MUNICIPAL SECURITIES (CA, OTHER STATES)</b>				
Max % (MV)	30.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	
Max Maturity (Years)	5	0.0	Compliant	
Min Rating (A- by 1)	0.0	0.0	Compliant	
<b>NEGOTIABLE CERTIFICATES OF DEPOSIT (NCD)</b>				
Max % (MV)	30.0	0.0	Compliant	
Max % Issuer (MV)	5.0	0.0	Compliant	

## STATEMENT OF COMPLIANCE



City of Milpitas | Account #10762 | As of September 30, 2024

Rules Name	Limit	Actual	Compliance Status	Notes
Max Maturity (Years)	5	0.0	Compliant	
Min Rating (A-1 by 1 or A- by 1 if > FDIC Limit)	0.0	0.0	Compliant	
<b>REPURCHASE AGREEMENTS</b>				
Max Maturity (Years)	1.0	0.0	Compliant	
<b>SRI PROHIBITED INVESTMENTS</b>				
Prohibited Investment - Fossil Fuels	0.0	0.0	Compliant	
Prohibited Investments - Energy	0.0	0.0	Compliant	
<b>SUPRANATIONAL OBLIGATIONS</b>				
Max % (MV)	30.0	4.6	Compliant	
Max % Issuer (MV)	10.0	2.0	Compliant	
Max Maturity (Years)	5	4	Compliant	
Min Rating (AA- by 1)	0.0	0.0	Compliant	
<b>U.S. TREASURIES</b>				
Max % (MV)	100.0	44.5	Compliant	
Max Maturity (Years)	5	4	Compliant	

To the best of my knowledge, this report accurately reflects all City and Successor Agency investments and is in conformity with all State laws and the City's investment policy. A copy of the policy is available at the office of the City Clerk. This investment program herein shown provides sufficient cash flow liquidity to meet next six months' estimated expenditures.

DocuSigned by:  
Luz Cofresí-Howe  
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Luz Cofresí-Howe, Director of Finance



## CONSOLIDATED INVESTMENT PROGRAM INFORMATION

PORTFOLIO CHARACTERISTICS



City of Milpitas Cons | Account #10771 | As of September 30, 2024

	9/30/2024 Portfolio	6/30/2024 Portfolio	3/31/2024 Portfolio	12/31/2023 Portfolio	09/30/2023 Portfolio
Average Maturity (yrs)	2.19	1.90	1.95	2.08	2.08
Average Modified Duration	1.87	1.63	1.73	1.78	1.77
Average Purchase Yield	3.71%	3.51%	3.27%	2.75%	2.55%
Average Market Yield	4.04%	4.57%	4.63%	4.22%	4.71%
Average Quality**	AA	AA	AA	AA/Aa1	AA/Aa1
Total Market Value	346,824,297	380,853,314	356,576,942	329,723,074	321,259,911

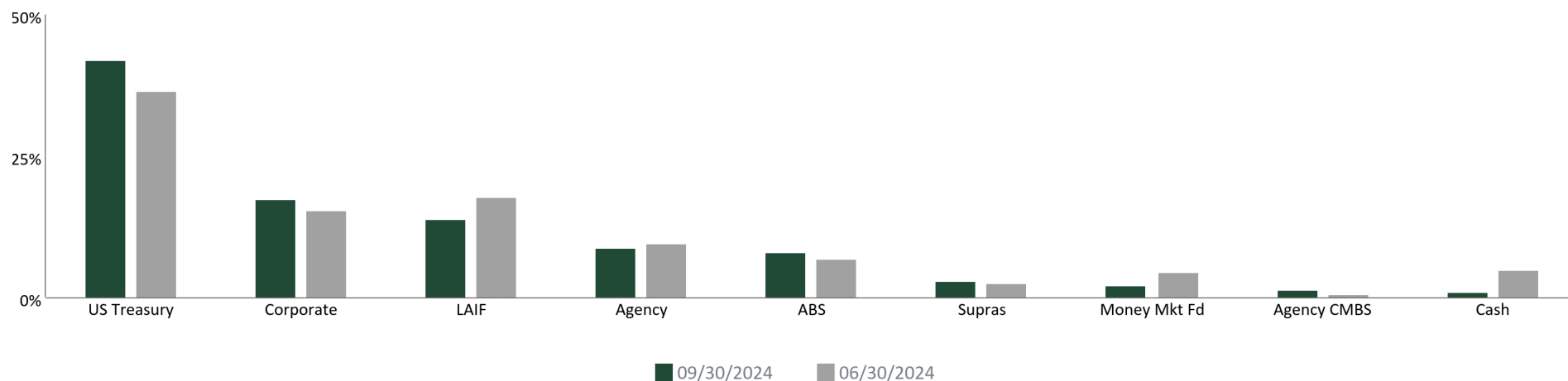
\*Benchmark: NO BENCHMARK REQUIRED

\*\*The credit quality is a weighted average calculation of the highest of S&P, Moody’s and Fitch.

## SECTOR DISTRIBUTION



City of Milpitas Cons | Account #10771 | As of September 30, 2024

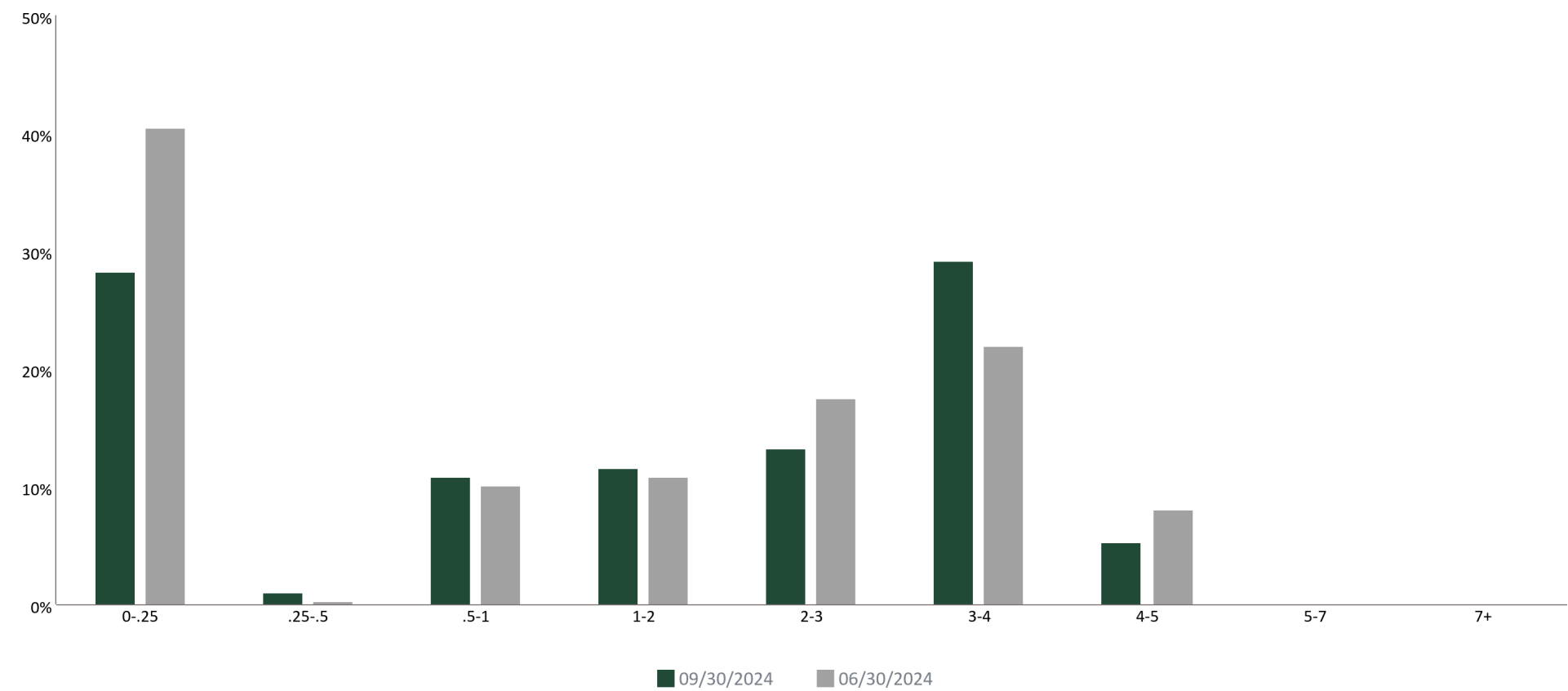


	09/30/2024	06/30/2024	03/31/2024	12/31/2023	09/30/23
ABS	28,190,410	26,139,706	23,888,300	23,744,267	26,960,079
Agency	36,612,004	36,612,004	37,363,831	37,390,901	38,528,668
Cash	4,144,992	19,024,029	8,280,036	8,070,019	6,739,907
Agency CMBS/CMO	5,230,377	2,879,181	2,938,793	2,956,982	1,697,759
Corporate	61,281,438	58,753,115	58,904,951	61,725,801	60,531,496
LAIF	49,224,973	67,470,434	64,744,926	77,998,770	78,268,930
Money Market Fund	8,420,072	17,907,806	20,125,598	4,362,324	4,819,837
Supranational	11,444,174	11,060,956	11,099,257	8,739,009	6,041,494
US Treasury	146,167,051	139,430,055	128,090,366	102,691,375	95,962,519
Grand Total	345,381,258	379,277,285	355,436,058	327,679,449	319,550,689

DURATION DISTRIBUTION



City of Milpitas Cons | Account #10771 | As of September 30, 2024



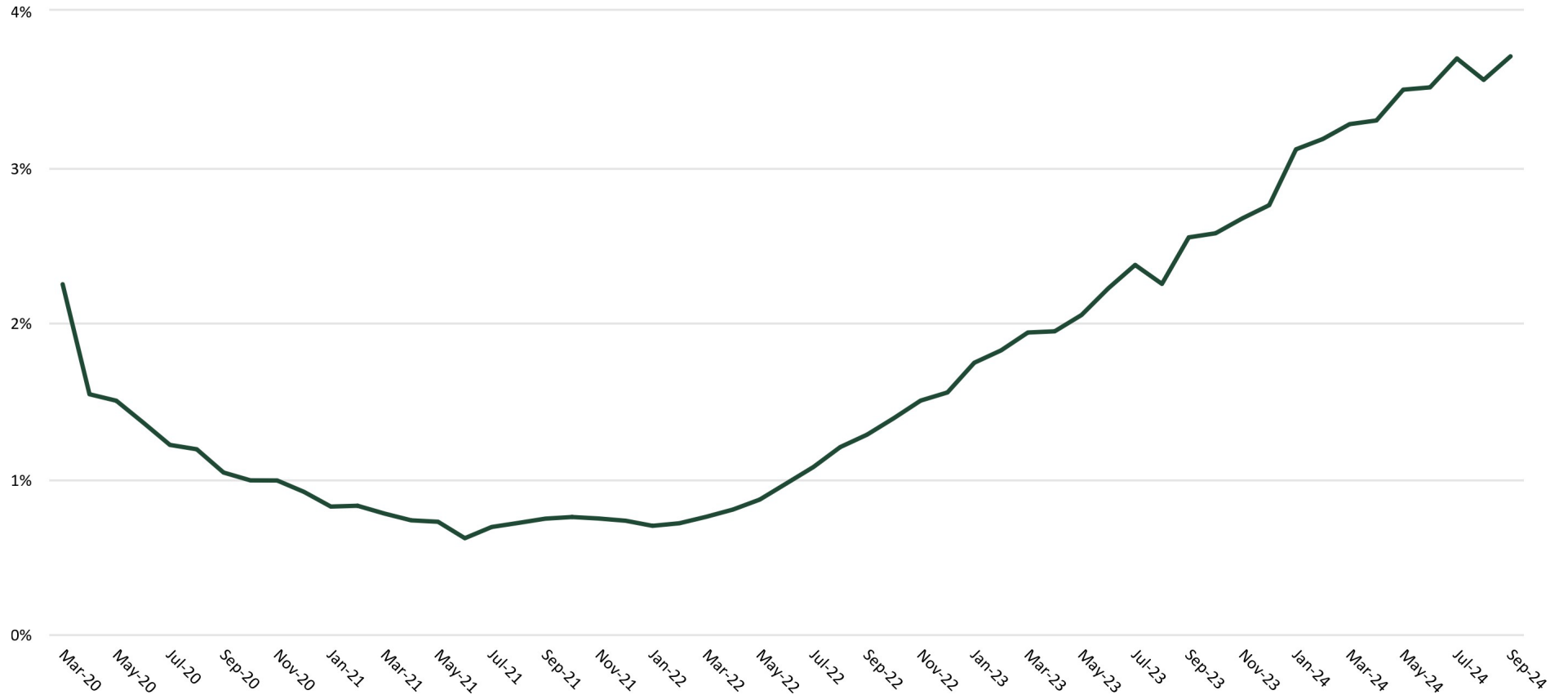
Date	0-.25	.25-.5	.5-1	1-2	2-3	3-4	4-5	5-7	7+
09/30/2024	28.3%	1.1%	10.9%	11.6%	13.3%	29.3%	5.4%	0.0%	0.0%
06/30/2024	40.6%	0.3%	10.2%	10.8%	17.6%	22.1%	8.1%	0.0%	0.0%

HISTORICAL AVERAGE PURCHASE YIELD



City of Milpitas Cons | Account #10771 | As of September 30, 2024

Purchase Yield as of 09/30/24 = 3.71%







# CHANDLER ASSET MANAGEMENT MANAGED PORTFOLIO

PORTFOLIO CHARACTERISTICS



City of Milpitas | Account #10762 | As of September 30, 2024

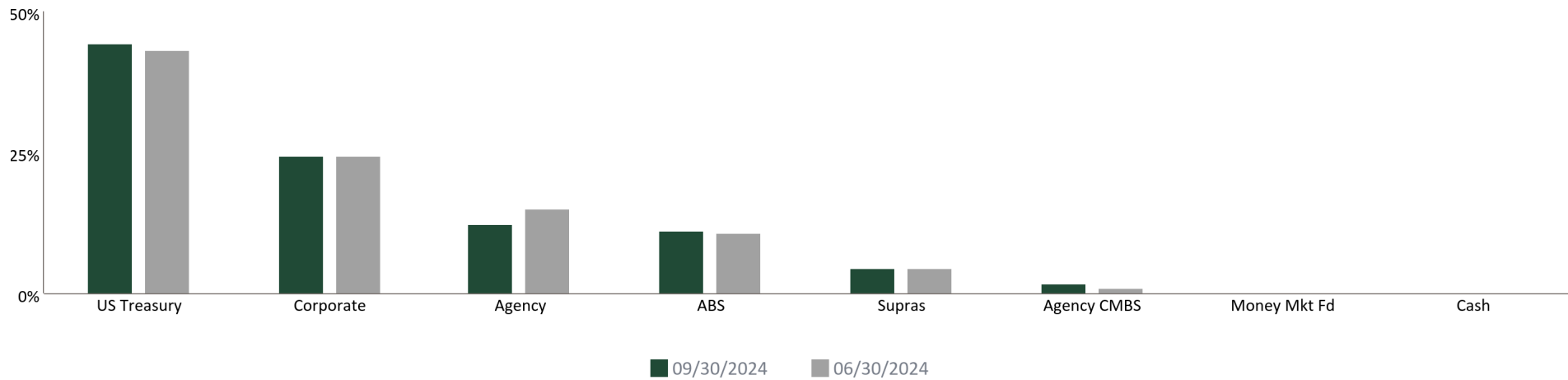
	9/30/2024 Portfolio	6/30/2024 Portfolio	3/31/2024 Portfolio	12/31/2023 Portfolio	09/30/2023 Portfolio
Average Maturity (yrs)	3.03	2.99	2.89	2.87	2.89
Average Modified Duration	2.58	2.55	2.56	2.46	2.45
Average Purchase Yield	3.39%	3.12%	2.76%	2.43%	2.24%
Average Market Yield	3.89%	4.82%	4.77%	4.44%	5.22%
Average Quality**	AA	AA	AA	AA/Aa1	AA/Aa1
Total Market Value	250,317,231	241,977,048	239,828,495	239,012,349	231,669,484

\*\*The credit quality is a weighted average calculation of the highest of S&P, Moody's and Fitch.

## SECTOR DISTRIBUTION



City of Milpitas | Account #10762 | As of September 30, 2024

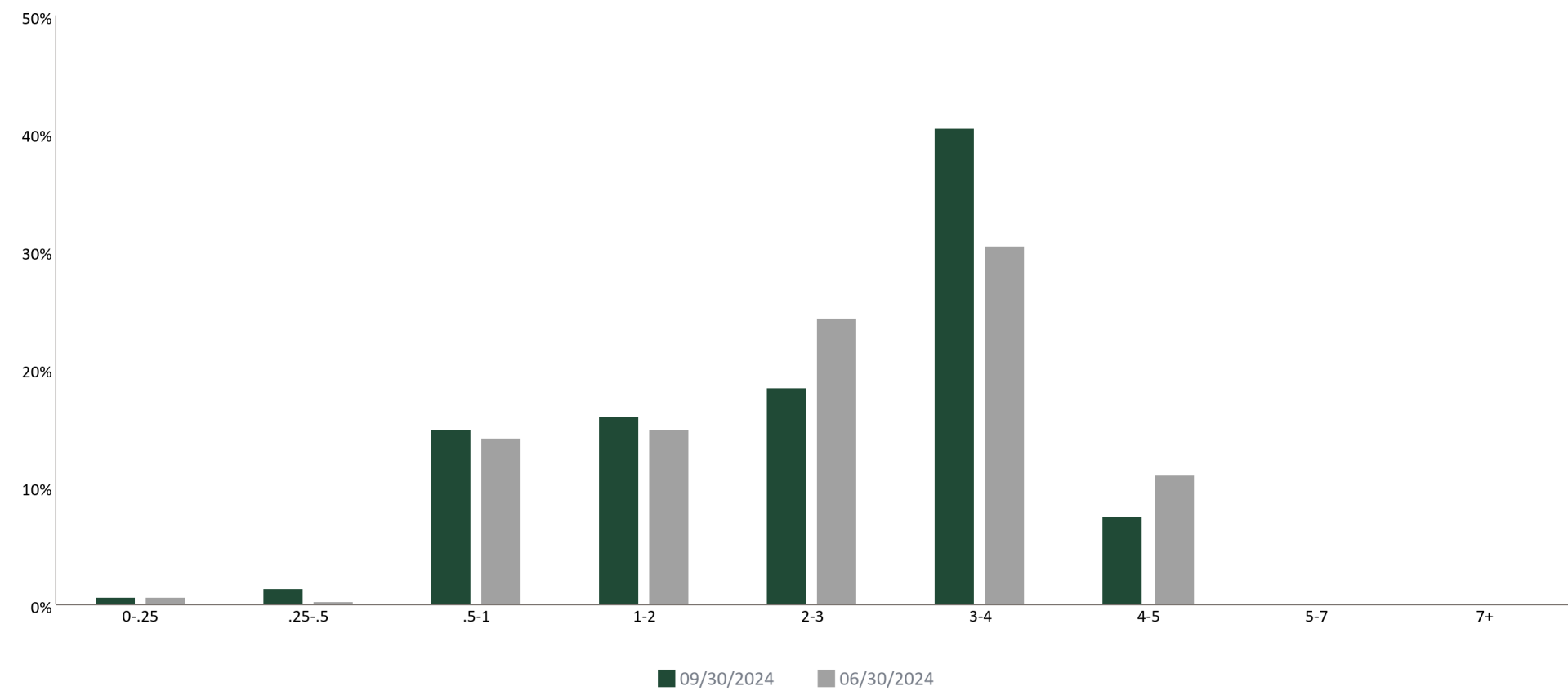


	09/30/2024	06/30/2024	03/31/2024	12/31/2023	09/30/23
ABS	28,190,410	26,139,706	23,888,300	23,744,267	26,960,079
Agency	31,277,771	36,612,004	37,363,831	37,390,901	38,528,668
Agency CMBS/CMO	5,230,377	2,879,181	2,938,793	2,956,982	1,697,759
Cash	4,325	321,053	-	-	-
Corporate	61,281,438	58,753,115	58,904,951	61,725,801	60,531,496
Money Market Fund	798,568	478,236	881,297	431,545	940,414
Supranational	11,444,174	11,060,956	11,099,257	8,739,009	6,041,494
US Treasury	110,647,129	104,156,768	103,261,582	102,691,375	95,962,519
Grand Total	248,874,192	240,401,019	238,687,611	237,679,881	230,662,430

DURATION DISTRIBUTION



City of Milpitas | Account #10762 | As of September 30, 2024



Date	0-.25	.25-.5	.5-1	1-2	2-3	3-4	4-5	5-7	7+
09/30/2024	0.7%	1.5%	15.1%	16.1%	18.5%	40.6%	7.5%	0.0%	0.0%
06/30/2024	0.7%	0.4%	14.2%	15.0%	24.4%	30.6%	11.2%	0.0%	0.0%

## ISSUERS



City of Milpitas | Account #10762 | As of September 30, 2024

Issuer	Investment Type	% Portfolio
United States	US Treasury	44.46%
FNMA	Agency	4.92%
Federal Home Loan Banks	Agency	3.86%
FHLMC	Agency	2.90%
FHLMC	Agency CMBS	2.10%
Inter-American Development Bank	Supras	2.05%
International Bank for Recon and Dev	Supras	2.00%
Chase Issuance Trust	ABS	1.69%
John Deere Owner Trust	ABS	1.57%
Bank of America Corporation	Corporate	1.43%
Royal Bank of Canada	Corporate	1.38%
Merck & Co., Inc.	Corporate	1.24%
Honda Motor Co., Ltd.	Corporate	1.21%
The Toronto-Dominion Bank	Corporate	1.18%
UnitedHealth Group Incorporated	Corporate	1.13%
Toyota Motor Corporation	Corporate	1.08%
Deere & Company	Corporate	1.04%
Bank of Montreal	Corporate	1.02%
Honeywell International Inc.	Corporate	0.99%
Northwestern Mutual Global Funding	Corporate	0.96%
Caterpillar Inc.	Corporate	0.94%
Morgan Stanley	Corporate	0.93%
The Charles Schwab Corporation	Corporate	0.89%
Tennessee Valley Authority	Agency	0.88%
Berkshire Hathaway Inc.	Corporate	0.86%
American Express Credit Master Trust	ABS	0.85%
Guardian Life Global Funding	Corporate	0.84%
Walmart Inc.	Corporate	0.82%
MERCEDES-BENZ AUTO RECEIVABLES TRUST	ABS	0.80%
Comcast Corporation	Corporate	0.79%

## ISSUERS



City of Milpitas | Account #10762 | As of September 30, 2024

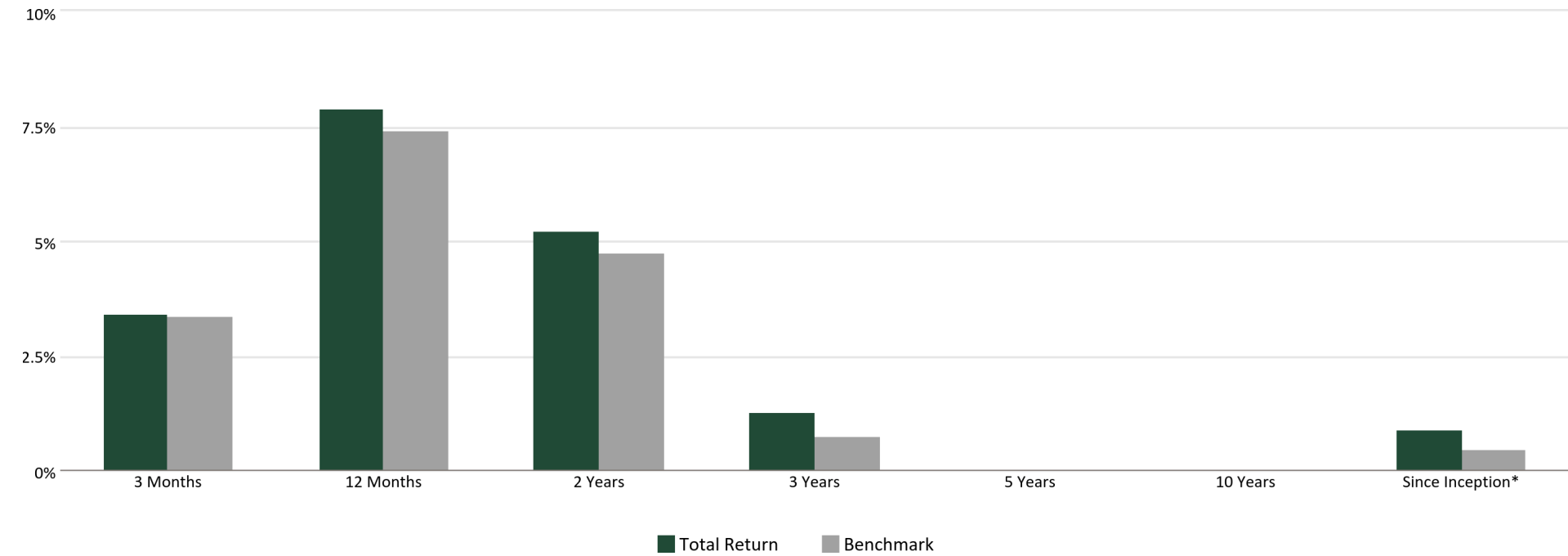
Issuer	Investment Type	% Portfolio
BMW Vehicle Owner Trust	ABS	0.78%
Metropolitan Life Global Funding I	Corporate	0.73%
Realty Income Corporation	Corporate	0.72%
GM Financial Automobile Leasing Trus	ABS	0.69%
Honda Auto Receivables Owner Trust	ABS	0.65%
Toyota Lease Owner Trust 2024-B	ABS	0.64%
The Home Depot, Inc.	Corporate	0.62%
Honda Auto Receivables 2024-3 Owner	ABS	0.62%
Amazon.com, Inc.	Corporate	0.60%
Hyundai Auto Receivables Trust	ABS	0.59%
International Finance Corporation	Supras	0.55%
Cisco Systems, Inc.	Corporate	0.54%
Apple Inc.	Corporate	0.53%
AbbVie Inc.	Corporate	0.52%
Bank of America Credit Card Trust	ABS	0.50%
GM Financial Securitized Term	ABS	0.49%
Met Tower Global Funding	Corporate	0.45%
U.S. Bancorp	Corporate	0.41%
Dominion Energy, Inc.	Corporate	0.40%
JPMorgan Chase & Co.	Corporate	0.40%
Toyota Lease Owner Trust	ABS	0.34%
Dreyfus Government Cash Management Fund	Money Mkt Fd	0.32%
Hyundai Auto Receivables Trust 2024-	ABS	0.28%
Toyota Auto Receivables Owner Trust	ABS	0.27%
Hyundai Auto Lease Securitization Tr	ABS	0.26%
Mercedes-Benz Auto Lease Trust	ABS	0.26%
BMW Vehicle Lease Trust	ABS	0.06%
Cash	Cash	0.00%
<b>TOTAL</b>		<b>100.00%</b>

INVESTMENT PERFORMANCE



City of Milpitas | Account #10762 | As of September 30, 2024

Total Rate of Return : Inception | 06/01/2020



	3 Months	12 Months	2 Years	3 Years	5 Years	10 Years	Since Inception
TOTAL RATE OF RETURN							
City of Milpitas	3.45%	7.91%	5.26%	1.27%			0.89%
Benchmark	3.37%	7.44%	4.75%	0.76%			0.48%

\*Periods over 1 year are annualized.  
Benchmark: ICE BofA 1-5 Year Unsubordinated US Treasury & Agency Index  
Total rate of return: A measure of a portfolio’s performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending market value; it includes interest earnings, realized and unrealized gains and losses in the portfolio.

PORTFOLIO CHARACTERISTICS



City of Milpitas Liquidity Account | Account #10770 | As of September 30, 2024

	Benchmark*	9/30/2024 Portfolio	6/30/2024 Portfolio
Average Maturity (yrs)	0.24	0.14	0.07
Average Modified Duration	0.23	0.14	0.07
Average Purchase Yield		4.99%	5.36%
Average Market Yield	4.62%	4.73%	5.13%
Average Quality**	AA+	AAA	AAA
Total Market Value		35,950,579	35,471,447

\*Benchmark: ICE BofA 3-Month US Treasury Bill Index  
\*\*The credit quality is a weighted average calculation of the highest of S&P, Moody's and Fitch.





## GLOSSARY

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## GLOSSARY OF INVESTMENT TERMS

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**Accrued Int.** The interest that has accumulated on a bond since the last interest payment up to, but not including, the settlement date.

**Acq/Disp Yield.** Yield to Maturity on the purchase/sale date.

**Agencies.** Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Obligations of GSEs are not guaranteed by the full faith and credit of the US government. There are eight GSEs, five of which are currently active in the new issue market. The five include:

**FFCB.** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

**FHLB.** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

**FHLMC.** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, more commonly referred to as “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

**FNMA.** Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

*Federally related institutions are arms of the federal government. Most do not issue securities directly into the market. Those, which do issue directly, include the following:*

**GNMA.** The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

**PEFCO.** The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the United States government.

**TVA.** The Tennessee Valley Authority provides flood control and power and also promotes development in portions of the Tennessee, Ohio and Mississippi River valleys. TVA currently issues discount notes and bonds.

**Amortized Cost.** Measure of the cost of a security whereby the cost value will change over time as the discount or premium paid for the security is gradually incorporated into the principal value as interest payments are received.

**Amount.** The principal amount of the transaction (i.e. units or par value x price).

**Asset-backed Securities (ABS)** . Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

**Average Life.** In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

**Banker’s Acceptance.** A money market instrument created to facilitate international trade transactions. This instrument is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

**Benchmark.** A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

## GLOSSARY OF INVESTMENT TERMS

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**Bond.** A bond is essentially a loan made by an investor to a division of the government, a government agency, or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is called the maturity date, or maturity. In addition, the issuer of the bond, that is, the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Interest from bonds is taxable based on the type of bond. Corporate bonds are fully taxable, municipal bonds issued by state or local government agencies are free from federal income tax and usually free from taxes of the issuing jurisdiction, and Treasury bonds are subject to federal taxes but not state and local taxes. Bonds are rated according to many factors, including cost, degree of risk, and rate of income.

**Book Value.** The value at which an asset is carried on a balance sheet. To calculate, take the cost of an asset +/- net accretion/amortization.

**Book Yield.** The YTM that equates the current amortized value of the security to its periodic future cash flows.

**Certificate of Deposit (CD).** A CD is a note issued by a bank for a savings deposit that an individual agrees to leave invested in the bank for a certain term. At the end of this term, on the maturity date, the principal may either be paid to the individual or rolled over into another CD. Interest rates on CDs between banks are competitive. Monies deposited into a CD are insured by the bank, thus they are a low-risk investment and a good way of maintaining principal. Maturities may be as short as a few weeks or as long as several years. Most banks set heavy penalties for premature withdrawal of monies from a CD. Large denomination CDs may be marketable.

**Collateralized Mortgage Obligations (CMO).** Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

**Commercial Paper.** The short-term unsecured debt of corporations.

**Consolidated Accounts.** Includes the main portfolio (City of Milpitas, 10762), reporting portfolio which includes internally managed securities (City of Milpitas Reporting Account, 10769), and the consolidated portfolio which report on both the internally and externally managed portfolios (City of Milpitas Consolidated, 10771).

**Cost Value.** The value at which the securities were purchased, excluding purchased interest.

**Cost Yield.** The annual income from an investment divided by the purchase cost.

**Coupon.** The rate of interest paid on a bond.

**CUSIP (Committee on Uniform Securities Identification Procedures).** A unique identification number assigned to all securities.

**Duration.** The weighted average time to maturity of a bond where the weights are the present values of future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See Modified Duration)

**Fitch.** The Fitch rating for the security.

**Gain/Loss.** The realized gain or loss on the security compared to the original purchase or amortized cost. For the amortization method, gain/loss is calculated by taking the principal amount on the sale less the amortized book value on the date of the sale. If the original cost method is used, the gain/loss is calculated by taking the principal amount on the sale less the original cost.

## GLOSSARY OF INVESTMENT TERMS

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**Interest Pur/Sold.** – The accrued interest purchased or sold on the transaction. When a bond is purchased or sold between coupon payment dates, the accrued interest up to the settlement date of the transaction is included in the net proceeds.

**Local Agency Investment Fund (LAIF).** An investment alternative for California’s local governments and special districts.

**Market Value.** Market value is the current value of an investment between willing buyers and sellers.

**Maturity.** The final date upon which the principal of a security becomes due and payable.

**Medium Term Notes (Corporate).** Unsecured, investment-grade senior debt securities of major corporations which are sold either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**Mkt Price.** The current fair value market price.

**Mkt YTM.** The internal rate of return that equates the periodic future cash flows (interest payments and redemption value) to the market price, assuming that all cash flows are invested at the YTM rate.

**Modified Duration.** The percent change in price of a bond with no embedded options for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio’s or security’s exposure to market risk.

**Money Market.** The exchange environment in which short term debt instruments (T-bills, discount notes, commercial paper and banker’s acceptances) are issued and traded.

**Moody.** The Moody's rating for the security.

**Mortgage Pass-through Securities.** A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

**Money Market Mutual Fund.** A mutual fund that purchases money market securities. The funds goal is to maintain the net asset value of each share at or close to \$1.

**Mutual Fund.** An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund’s prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds and money market instruments, as set forth in the individual fund’s prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

**Net Asset Value (NAV).** NAV is the price of a share in a mutual fund or investment company. This price is calculated once or twice daily. Net asset value is the amount by which the assets’ value exceeds the company’s liabilities. It is calculated by adding up the market value of all securities owned by the company, subtracting the company’s liabilities, and dividing this value by the number of shares of the company outstanding. Thus, the NAV indicates the current buying or selling price of a share in an investment company.

**Quality.** The credit quality of a bond. The highest rated bonds are rated AAA, followed by AA and then A. Local governments in California are not allowed to purchase securities rated lower than single A.

**Quantity.** Par value of bonds or units, such as equity or mutual fund shares.

## GLOSSARY OF INVESTMENT TERMS

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**Par Value/Units.** The face value or number of units held in the portfolio.

**Percentage of Portfolio (% of Port.).** The % of the portfolio that the security represents based on market value, including accrued interest.

**Purchase Date.** The settlement date on which the security was purchased.

**Price.** The price at which the transaction was executed, expressed as dollars per \$100 dollars of par value.

**Security Description.** The issuer name, coupon (periodic interest payment rate) and maturity.

**Settlement Date.** The date on which an executed security trade must be settled. That is, the date on which a buyer must pay for the securities and the seller must deliver them.

**S&P.** The Standard and Poor's rating for the security.

**Total Amount.** The principal amount (i.e. units or par value x price) plus accrued interest purchased or sold.

**Total Rate of Return.** A measure of a portfolio's performance over time. It is the internal rate of return that equates the beginning value of the portfolio with the ending value and includes interest earnings and realized and unrealized gains and losses on the portfolio.

**Transaction Type.** Purchase, sale, interest/paydown (principal), dividend, withdrawal, or contribution.

**Treasury Bills.** All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury Bills (T-bills). The Treasury currently issues three-month and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth cash flows.

**Treasury Notes.** All securities issued with initial maturities of two to ten years are called Treasury Notes (T-notes) and pay interest semi-annually.

**Treasury Bonds.** All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

**U.S. Treasury Obligations (Treasuries).** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

**Yield to Maturity (YTM).** The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

**Yield to Maturity (at market).** The discount rate that equates the present value of the promised cash flow (interest payments and redemption value) to the market price, assuming that all cash flows are invested at the YTM rate.

**Yield to Maturity (at purchase).** The YTM that equates to the purchase price of the security.



## DISCLOSURES

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## IMPORTANT DISCLOSURES



City of Milpitas | As of September 30, 2024

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Fixed income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

Ratings information have been provided by Moody’s, S&P and Fitch through data feeds we believe to be reliable as of the date of this statement, however we cannot guarantee its accuracy.

Security level ratings for U.S. Agency issued mortgage-backed securities (“MBS”) reflect the issuer rating because the securities themselves are not rated. The issuing U.S. Agency guarantees the full and timely payment of both principal and interest and carries a AA+/Aaa/AAA by S&P, Moody’s and Fitch respectively.

BENCHMARK DISCLOSURES



City of Milpitas | As of September 30, 2024

Benchmark	Disclosure
ICE BofA 1-5 Yr US Treasury & Agency Index	The ICE BofA 1-5 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody’s, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than five years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies.
ICE BofA 1-3 Yr US Treasury & Agency Index	The ICE BofA 1-3 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody’s, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than three years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule, and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies.