

AGENDA REPORT

City Council

MEETING DATE: August 27, 2014

PREPARED BY: Jay Lembach; Finance
Manager

DEPT. DIRECTOR: Tim Nash

DEPARTMENT: Finance Department

CITY MANAGER: Gus Vina

SUBJECT:

Annual Investment Report and Annual Adoption of Investment Policy

RECOMMENDED ACTIONS:

- (1) Accept and file the Annual Investment Report for the fiscal year ended June 30, 2014.
- (2) Adopt the Investment Policy to be effective for the fiscal year 2014-15

STRATEGIC PLAN:

Organizational Effectiveness & Efficiency: Goal 1. Maintain the City's financial health

FISCAL CONSIDERATIONS:

There is no fiscal impact related to this Agenda Item.

BACKGROUND:

The City's adopted Investment Policy (Section XVI) requires the City's Investment Officer to report investment positions and results of the *Pooled Investment Fund* and the *Investment of Bond Proceeds* to the City Council annually at a Public Meeting. Section XVII requires that the Investment Policy be reviewed and adopted at least annually, regardless of whether there are any proposed changes to the Policy.

REVIEW OF INVESTMENT REPORT(S):

The Annual Investment Report for the Pooled Investment Fund (**Attachment 1**) is produced via the City's SymPro investment-tracking software. It includes a number of separate reports, which together, are intended to address all significant aspects of the City's Investment Program.

The City had approximately \$100 million under management at June 30, 2014. Of this amount, approximately \$91.8 million was invested in various investment vehicles, which are detailed in Section VIII of the Policy. There were no amounts invested, either at June 30, 2014 or during the fiscal year that exceeded the internal guidelines for maximum allocations described in that same Section. The balance of \$8.7 million was on deposit with Union Bank, in anticipation of several large payments which are made in early July of each year.

The Pooled Investment Fund earned \$428,862 for the fiscal year, a return of 0.5% based on an average investable balance of \$84.5 million. As of June 30, and generally during the fiscal year, the Pool's weighted-average maturity (WAM) was about 500-600 days, meaning that its average life was about 1.5 years. The City's adopted *Performance Benchmark* (described in Section XV of the Policy) is the 1 year US Treasury bill, thus, our average life is slightly above the benchmark. To make for a fairer comparison, the approximate average yield of a 1.5 year T-note was approximately 0.35%. Thus, Encinitas' return on investment exceeded the benchmark by 0.15%, or 15 basis points. While the actual rates of return and monies earned are modest by historical standards, this year's performance exceeded the (revised) benchmark by almost 50%.

The Annual Investment Report for the Investment of Bond Proceeds (**Attachment 2**) is straightforward and is subject to only very minor changes in activity from year-to-year. It should be noted that the City's 2013 Lease Revenue Bonds do not list, and are not required to maintain a debt service reserve fund. Rates on available investment vehicles (which are extremely limited by the Bond Indentures) are yielding near zero at this point.

INVESTMENT POLICY:

The City's first written Investment Policy was developed and implemented in 1994. The Policy was extensively modified and upgraded in 2002, and earned the City the distinction of an award from the Association of Public Treasurers – US and Canada: the *Certificate of Excellence – Investment Policy*. The award of this certificate requires a rigorous review of the Investment Policy to assure that all current best practices have been incorporated in the development and implementation of the Policy. Those criteria have not changed since 2002.

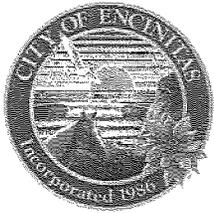
There are no proposed changes to the Policy at this time. The proposed amended Policy is attached hereto as **Attachment 3**.

ATTACHMENTS:

- | | |
|---------------------|------------------------------------|
| ATTACHMENT 1 | Annual Investment Report |
| ATTACHMENT 2 | Investment Report on Bond Proceeds |
| ATTACHMENT 3 | Investment Policy |
| ATTACHMENT 4 | Investment Update |

ATTACHMENT 1

Annual Investment Report



**City of Encinitas - YTD Report
Portfolio Management
Portfolio Summary
June 30, 2014**

CITY OF ENCINITAS
505 S. VULCAN
ENCINITAS, ENCINITAS, CA 9
(760)633-2641

Investments	Par Value	Market Value	Book Value	% of Portfolio	YTM	Term	Days to Maturity
Local Agency Investment Funds	15,027,887.08	15,027,887.08	15,027,887.08	16.38	0.230	1	1
Managed Pool Accounts	1,000,000.00	1,000,000.00	1,000,000.00	1.09	0.060	1	1
Money Market Funds	2,111,178.99	2,111,178.99	2,111,178.99	2.30	0.010	1	1
Certificates of Deposit - Bank	2,976,000.00	2,982,299.20	2,976,000.00	3.24	1.100	1,231	889
U.S. Treasury Coupon Securities	18,000,000.00	18,383,820.00	18,354,515.20	20.00	0.585	960	781
Federal Agency Coupon Securities	38,000,000.00	38,432,545.55	38,393,489.58	41.84	0.527	995	472
Federal Agency Callable Securities	12,900,000.00	12,900,327.00	12,901,979.59	14.06	1.196	1,398	1,174
Corporate Medium Term Notes	1,000,000.00	1,007,170.00	996,317.05	1.09	1.396	1,266	406
Investments	91,015,066.07	91,845,227.82	91,761,367.49	100.00%	0.595	859	552

Cash							
Passbook/Checking (not included in yield calculations)	8,665,405.07	8,665,405.07	8,665,405.07		0.000	1	1
Total Cash and Investments	99,680,471.14	100,510,632.89	100,426,772.56		0.595	859	552

Total Earnings	June 30 Period Ending	Fiscal Year Ending
Current Year	428,862.44	428,862.44
Average Daily Balance	84,511,160.77	
Effective Rate of Return	0.51%	

I certify the accuracy of the attached report on the City of Encinitas' Pooled Investment Fund. All funds for which the City has oversight responsibility are reflected in this report. All investments are in compliance with the City's adopted Investment Policy, which is available through the City Clerk's office. The City's Investment Program provides sufficient liquidity to meet the next six (6) months expenditure requirements. The source of the market values of investments owned is Union Bank of California Custody Services.

Jay A. Leimbach, Investment Officer

7/23/2014

Reporting period 07/01/2013-06/30/2014
Data Updated: SET_ANNU: 07/23/2014 17:28
Run Date: 07/23/2014 - 17:28

No fiscal year history available

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Report Ver. 7.3.3b

**City of Encinitas - YTD Report
Portfolio Management
Portfolio Details - Investments
June 30, 2014**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM	S&P Moody's	Maturity Date
Local Agency Investment Funds											
SYS1012	1012	CA Local Agency Invstment Fund			15,027,887.08	15,027,887.08	15,027,887.08	0.230	0.230	NR	
Subtotal and Average			14,415,296.63		15,027,887.08	15,027,887.08	15,027,887.08		0.230		
Managed Pool Accounts											
SYS1003	1003	CA Asset Management Program			1,000,000.00	1,000,000.00	1,000,000.00	0.060	0.060	AAA	
Subtotal and Average			4,251,297.56		1,000,000.00	1,000,000.00	1,000,000.00		0.060		
Money Market Funds											
SYS1004	1004	Union Bank Custody Acct.			2,111,178.99	2,111,178.99	2,111,178.99	0.010	0.010	AAA	
Subtotal and Average			1,178,195.56		2,111,178.99	2,111,178.99	2,111,178.99		0.010		
Certificates of Deposit - Bank											
05568P3A3	1450	BMW Bank North America		04/12/2013	248,000.00	248,324.88	248,000.00	0.650	0.650	NR	NR 10/13/2015
38143AP25	1435	Goldman Sachs Bank, USA		10/24/2012	248,000.00	249,086.24	248,000.00	1.050	1.050	NR	NR 10/26/2015
92937CBM9	1456	Wex Bank		11/15/2013	248,000.00	248,250.48	248,000.00	0.650	0.650	NR	NR 11/16/2015
02005QV34	1449	Ally Bank		04/10/2013	248,000.00	247,709.84	248,000.00	0.650	0.650	NR	NR 04/11/2016
795450PZ2	1437	Sallie Mae Bank/Murray		10/24/2012	248,000.00	250,155.12	248,000.00	1.350	1.350	NR	NR 10/24/2016
36160XY43	1439	GE Capital Bank		10/26/2012	248,000.00	249,984.00	248,000.00	1.350	1.350	NR	NR 10/26/2016
20033ADJ2	1455	Comenity Capital Bank		11/12/2013	248,000.00	248,808.48	248,000.00	1.000	1.000	NR	NR 11/14/2016
20451PKJ4	1470	Compass Bank		06/11/2014	248,000.00	246,839.36	248,000.00	1.050	1.050	NR	NR 05/11/2017
628779FH8	1471	NBT Bank		06/06/2014	248,000.00	247,112.16	248,000.00	0.950	0.950	NR	NR 06/06/2017
23204HBH0	1474	Customerrs Bank		06/18/2014	248,000.00	246,752.56	248,000.00	0.950	0.950	NR	NR 06/19/2017
02587DLV8	1438	American Express Centurion		10/25/2012	248,000.00	250,323.76	248,000.00	1.500	1.500	NR	NR 10/25/2017
0606247A5	1454	Bank of Baroda		11/12/2013	248,000.00	248,952.32	248,000.00	2.050	2.050	NR	NR 11/13/2018
Subtotal and Average			1,996,230.14		2,976,000.00	2,982,299.20	2,976,000.00		1.100		
U.S. Treasury Coupon Securities											
912828QJ2	1462	U.S. Treasury Notes		01/17/2014	2,000,000.00	2,060,000.00	2,056,471.54	2.125	0.419	AA+	Aaa 02/29/2016
912828QF0	1461	U.S. Treasury Notes		01/17/2014	2,000,000.00	2,058,900.00	2,055,085.72	2.000	0.487	AA+	Aaa 04/30/2016
912828VG2	1464	U.S. Treasury Notes		01/17/2014	2,000,000.00	2,002,500.00	1,998,540.04	0.500	0.538	AA+	Aaa 06/15/2016
912828QX1	1459	U.S. Treasury Notes		12/23/2013	2,000,000.00	2,041,560.00	2,040,073.04	1.500	0.531	AA+	Aaa 07/31/2016
912828RF9	1460	U.S. Treasury Notes		12/23/2013	2,000,000.00	2,020,620.00	2,018,398.68	1.000	0.571	AA+	Aaa 08/31/2016
912828LP3	1457	U.S. Treasury Notes		12/23/2013	3,000,000.00	3,164,760.00	3,160,293.05	3.000	0.601	AA+	Aaa 09/30/2016
912828RM4	1458	U.S. Treasury Notes		12/23/2013	3,000,000.00	3,028,140.00	3,024,918.35	1.000	0.640	AA+	Aaa 10/31/2016
912828SJ0	1463	U.S. Treasury Notes		01/17/2014	2,000,000.00	2,007,340.00	2,000,734.78	0.875	0.861	AA+	Aaa 02/28/2017

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**City of Encinitas - YTD Report
Portfolio Management
Portfolio Details - Investments
June 30, 2014**

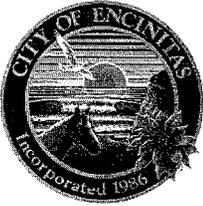
CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM	S&P Moody's	Maturity Date
Subtotal and Average			9,035,068.05		18,000,000.00	18,383,820.00	18,354,515.20		0.585		
Federal Agency Coupon Securities											
3133XUPG2	1445	Federal Home Loan Bank		12/27/2012	2,000,000.00	2,008,280.00	2,007,838.13	2.875	0.255	AAA	Aaa 08/25/2014
31398A3G5	1426	Federal Nat'l Mortgage Assoc.		03/30/2012	5,000,000.00	5,012,900.00	5,009,424.26	1.500	0.480	AAA	Aaa 09/08/2014
3135G0DW0	1441	Federal Nat'l Mortgage Assoc.		12/27/2012	2,000,000.00	2,003,660.00	2,002,336.92	0.625	0.270	AAA	Aaa 10/30/2014
3133X9DC1	1423	Federal Home Loan Bank		03/30/2012	2,000,000.00	2,032,480.00	2,028,935.39	4.500	0.550	AAA	Aaa 11/14/2014
31331SPQ0	1430	Federal Farm Credit		06/27/2012	2,000,000.00	2,052,500.00	2,048,930.19	4.375	0.450	AAA	Aaa 02/17/2015
3133XWX95	1427	Federal Home Loan Bank		06/27/2012	2,000,000.00	2,036,300.00	2,031,530.98	2.750	0.480	AAA	Aaa 03/13/2015
3135G0LN1	1444	Federal Nat'l Mortgage Assoc.		12/27/2012	2,000,000.00	2,006,480.00	2,002,592.82	0.500	0.370	AAA	Aaa 07/02/2015
3134G3ZA1	1448	Federal Home Loan Mortgage		03/28/2013	2,000,000.00	2,006,860.00	2,003,431.86	0.500	0.351	AAA	Aaa 08/28/2015
313370JB5	1442	Federal Home Loan Bank		12/27/2012	2,000,000.00	2,036,320.00	2,031,671.66	1.750	0.415	AAA	Aaa 09/11/2015
313371NW2	1429	Federal Home Loan Bank		06/27/2012	2,000,000.00	2,030,400.00	2,022,120.90	1.375	0.600	AAA	Aaa 12/11/2015
3134A4ZT4	1440	Federal Home Loan Mortgage		12/27/2012	2,000,000.00	2,135,100.00	2,133,228.32	4.750	0.420	AAA	Aaa 01/19/2016
3133ECGT5	1447	Federal Farm Credit		03/28/2013	2,000,000.00	2,002,240.00	1,999,794.87	0.410	0.416	AAA	Aaa 03/01/2016
3137EADQ9	1446	Federal Home Loan Mortgage		03/28/2013	2,000,000.00	2,000,860.00	2,002,926.93	0.500	0.421	AAA	Aaa 05/13/2016
3135G0ES8	1453	Federal Nat'l Mortgage Assoc.		06/26/2013	2,000,000.00	2,028,800.00	2,017,374.24	1.375	1.002	AAA	Aaa 11/15/2016
3137EADT3	1467	Federal Home Loan Mortgage		03/10/2014	2,000,000.00	2,005,721.94	2,007,951.83	0.875	0.768	AAA	Aaa 02/22/2017
3137EADC0	1466	Federal Home Loan Mortgage		03/10/2014	2,000,000.00	2,007,011.11	2,011,341.94	1.000	0.788	AAA	Aaa 03/08/2017
3135G0JA2	1473	Federal Nat'l Mortgage Assoc.		06/09/2014	1,000,000.00	1,006,352.50	1,009,939.69	1.125	0.815	AAA	Aaa 04/27/2017
3137EADF3	1468	Federal Home Loan Mortgage		03/10/2014	2,000,000.00	2,020,280.00	2,022,118.65	1.250	0.858	AAA	Aaa 05/12/2017
Subtotal and Average			37,822,871.04		38,000,000.00	38,432,545.55	38,393,489.58		0.527		
Federal Agency Callable Securities											
3135G0RS4	1443	Federal Nat'l Mortgage Assoc.		12/27/2012	2,000,000.00	2,001,520.00	2,001,979.59	0.500	0.426	AAA	Aaa 11/06/2015
313383FB2	1451	Federal Home Loan Bank		06/19/2013	2,900,000.00	2,895,447.00	2,900,000.00	0.580	0.580	AAA	Aaa 12/19/2016
3134G56W0	1472	Federal Home Loan Mortgage		06/23/2014	1,000,000.00	998,280.00	1,000,000.00	0.650	0.650	AAA	Aaa 12/23/2016
3134G4TL2	1465	Federal Home Loan Mortgage		01/30/2014	2,000,000.00	2,001,280.00	2,000,000.00	1.000	1.000	AAA	Aaa 01/30/2017
3130A1G69	1469	Federal Home Loan Bank		04/16/2014	5,000,000.00	5,003,800.00	5,000,000.00	2.050	2.050	AAA	Aaa 04/16/2019
Subtotal and Average			14,085,498.31		12,900,000.00	12,900,327.00	12,901,979.59		1.196		
Corporate Medium Term Notes											
36962G4N1	1421	General Electric Capital Corp		02/22/2012	1,000,000.00	1,007,170.00	996,317.05	1.000	1.396	AA+	Aa2 08/11/2015
Subtotal and Average			994,659.80		1,000,000.00	1,007,170.00	996,317.05		1.396		

City of Encinitas - YTD Report
Portfolio Management
Portfolio Details - Investments
June 30, 2014

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM	S&P Moody's
		Total and Average	84,511,160.77		91,015,066.07	91,845,227.82	91,761,367.49		0.595	

**City of Encinitas - YTD Report
Portfolio Management
Portfolio Details - Cash
June 30, 2014**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM	S&P Moody's
Passbook/Checking Accounts										
SYS1010	1010	Union Bank Checking Acct.			8,665,405.07	8,665,405.07	8,665,405.07		0.000	
		Average Balance	0.00							
		Total Cash and Investments	84,511,160.77		99,680,471.14	100,510,632.89	100,426,772.56		0.595	



**City of Encinitas - YTD Report
Investments by Issuer
Active Investments
Sorted by Maturity Date
June 30, 2014**

CITY OF ENCINITAS
505 S. VULCAN
ENCINITAS, ENCINITAS, CA 9
(760)633-2641

CUSIP	Investment #	Security Type	Investment Class	Book Value	Current Rate	Market Value	Market Date	YTM 365	Redemption Date	Days To Maturity	Call Date	Collateral
Ally Bank												
02005QV34	1449	Certificates of Deposit - Bank	Amort	248,000.00	0.650	247,709.84	06/30/2014	0.650	04/11/2016	650		
Subtotal and Average				248,000.00		247,709.84		0.650		650		
American Express Centurion												
02587DLV8	1438	Certificates of Deposit - Bank	Fair	248,000.00	1.500	250,323.76	06/30/2014	1.500	10/25/2017	1,212		
Subtotal and Average				248,000.00		250,323.76		1.500		1,212		
Bank of Baroda												
0606247A5	1454	Certificates of Deposit - Bank	Amort	248,000.00	2.050	248,952.32	06/30/2014	2.050	11/13/2018	1,596		
Subtotal and Average				248,000.00		248,952.32		2.050		1,596		
BMW Bank North America												
05568P3A3	1450	Certificates of Deposit - Bank	Amort	248,000.00	0.650	248,324.88	06/30/2014	0.650	10/13/2015	469		
Subtotal and Average				248,000.00		248,324.88		0.650		469		
CA Asset Management Program												
SYS1003	1003	Managed Pool Accounts	Amort	1,000,000.00	0.060	1,000,000.00	06/30/2014	0.060		1		
Subtotal and Average				1,000,000.00		1,000,000.00		0.060		1		
Comenity Capital Bank												
20033ADJ2	1455	Certificates of Deposit - Bank	Amort	248,000.00	1.000	248,808.48	06/30/2014	1.000	11/14/2016	867		
Subtotal and Average				248,000.00		248,808.48		1.000		867		
Compass Bank												
20451PKJ4	1470	Certificates of Deposit - Bank	Amort	248,000.00	1.050	246,839.36	06/30/2014	1.050	05/11/2017	1,045		
Subtotal and Average				248,000.00		246,839.36		1.050		1,045		
Customerrs Bank												
23204HBH0	1474	Certificates of Deposit - Bank	Amort	248,000.00	0.950	246,752.56	06/30/2014	0.950	06/19/2017	1,084		
Subtotal and Average				248,000.00		246,752.56		0.950		1,084		

Data Updated: SET_ANNU: 07/23/2014 17:28
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No fiscal year history available

Portfolio ENCI
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DI (PRF_DI) 7.1.1
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**City of Encinitas - YTD Report
Investments by Issuer
Sorted by Maturity Date**

CUSIP	Investment #	Security Type	Investment Class	Book Value	Current Rate	Market Value	Market Date	YTM 365	Redemption Date	Days To Maturity	Call Date	Collateral
Federal Farm Credit												
31331SPQ0	1430	Federal Agency Coupon Securities	Fair	2,048,930.19	4.375	2,052,500.00	06/30/2014	0.450	02/17/2015	231		
3133ECGT5	1447	Federal Agency Coupon Securities	Fair	1,999,794.87	0.410	2,002,240.00	06/30/2014	0.416	03/01/2016	609		
Subtotal and Average				4,048,725.06		4,054,740.00		0.433		417		
Federal Home Loan Bank												
3133XUPG2	1445	Federal Agency Coupon Securities	Fair	2,007,838.13	2.875	2,008,280.00	06/30/2014	0.255	08/25/2014	55		
3133X9DC1	1423	Federal Agency Coupon Securities	Fair	2,028,935.39	4.500	2,032,480.00	06/30/2014	0.550	11/14/2014	136		
3133XWX95	1427	Federal Agency Coupon Securities	Fair	2,031,530.98	2.750	2,036,300.00	06/30/2014	0.480	03/13/2015	255		
313370JB5	1442	Federal Agency Coupon Securities	Fair	2,031,671.66	1.750	2,036,320.00	06/30/2014	0.415	09/11/2015	437		
313371NW2	1429	Federal Agency Coupon Securities	Fair	2,022,120.90	1.375	2,030,400.00	06/30/2014	0.600	12/11/2015	528		
313383FB2	1451	Federal Agency Callable Securities	Fair	2,900,000.00	0.580	2,895,447.00	06/30/2014	0.580	12/19/2016	902	06/19/2015	
3130A1G69	1469	Federal Agency Callable Securities	Fair	5,000,000.00	2.050	5,003,800.00	06/30/2014	2.050	04/16/2019	1,750	07/16/2014	
Subtotal and Average				18,022,097.06		18,043,027.00		0.921		789		
Federal Home Loan Mortgage												
3134G3ZA1	1448	Federal Agency Coupon Securities	Fair	2,003,431.86	0.500	2,006,860.00	06/30/2014	0.351	08/28/2015	423		
3134A4ZT4	1440	Federal Agency Coupon Securities	Fair	2,133,228.32	4.750	2,135,100.00	06/30/2014	0.420	01/19/2016	567		
3137EADQ9	1446	Federal Agency Coupon Securities	Fair	2,002,926.93	0.500	2,000,860.00	06/30/2014	0.421	05/13/2016	682		
3134G56W0	1472	Federal Agency Callable Securities	Fair	1,000,000.00	0.650	998,280.00	06/30/2014	0.650	12/23/2016	906	12/23/2014	
3134G4TL2	1465	Federal Agency Callable Securities	Fair	2,000,000.00	1.000	2,001,280.00	06/30/2014	1.000	01/30/2017	944	07/30/2014	
3137EADT3	1467	Federal Agency Coupon Securities	Fair	2,007,951.83	0.875	2,005,721.94	06/30/2014	0.768	02/22/2017	967		
3137EADC0	1466	Federal Agency Coupon Securities	Fair	2,011,341.94	1.000	2,007,011.11	06/30/2014	0.788	03/08/2017	981		
3137EADF3	1468	Federal Agency Coupon Securities	Fair	2,022,118.65	1.250	2,020,280.00	06/30/2014	0.858	05/12/2017	1,046		
Subtotal and Average				15,180,999.53		15,175,393.05		0.656		806		
Federal Nat'l Mortgage Assoc.												
31398A3G5	1426	Federal Agency Coupon Securities	Fair	5,009,424.26	1.500	5,012,900.00	06/30/2014	0.480	09/08/2014	69		
3135G0DW0	1441	Federal Agency Coupon Securities	Fair	2,002,336.92	0.625	2,003,660.00	06/30/2014	0.270	10/30/2014	121		
3135G0LN1	1444	Federal Agency Coupon Securities	Fair	2,002,592.82	0.500	2,006,480.00	06/30/2014	0.370	07/02/2015	366		
3135G0RS4	1443	Federal Agency Callable Securities	Fair	2,001,979.59	0.500	2,001,520.00	06/30/2014	0.426	11/06/2015	493	11/06/2014	
3135G0ES8	1453	Federal Agency Coupon Securities	Fair	2,017,374.24	1.375	2,028,800.00	06/30/2014	1.002	11/15/2016	868		
3135G0JA2	1473	Federal Agency Coupon Securities	Fair	1,009,939.69	1.125	1,006,352.50	06/30/2014	0.815	04/27/2017	1,031		
Subtotal and Average				14,043,647.52		14,059,712.50		0.526		363		
GE Capital Bank												
36160XY43	1439	Certificates of Deposit - Bank	Fair	248,000.00	1.350	249,984.00	06/30/2014	1.350	10/26/2016	848		

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City of Encinitas - YTD Report
Investments by Issuer
Sorted by Maturity Date

CUSIP	Investment #	Security Type	Investment Class	Book Value	Current Rate	Market Value	Market Date	YTM 365	Redemption Date	Days To Maturity	Call Date	Collateral
Subtotal and Average				248,000.00		249,984.00		1.350		848		
General Electric Capital Corp												
36962G4N1	1421	Corporate Medium Term Notes	Fair	996,317.05	1.000	1,007,170.00	06/30/2014	1.396	08/11/2015	406		
Subtotal and Average				996,317.05		1,007,170.00		1.396		406		
Goldman Sachs Bank, USA												
38143AP25	1435	Certificates of Deposit - Bank	Fair	248,000.00	1.050	249,086.24	06/30/2014	1.050	10/26/2015	482		
Subtotal and Average				248,000.00		249,086.24		1.050		482		
CA Local Agency Invstment Fund												
SYS1012	1012	Local Agency Investment Funds	Amort	15,027,887.08	0.230	15,027,887.08	06/30/2014	0.230		1		
Subtotal and Average				15,027,887.08		15,027,887.08		0.230		1		
NBT Bank												
628779FH8	1471	Certificates of Deposit - Bank	Amort	248,000.00	0.950	247,112.16	06/30/2014	0.950	06/06/2017	1,071		
Subtotal and Average				248,000.00		247,112.16		0.950		1,071		
Sallie Mae Bank/Murray												
795450PZ2	1437	Certificates of Deposit - Bank	Fair	248,000.00	1.350	250,155.12	06/30/2014	1.350	10/24/2016	846		
Subtotal and Average				248,000.00		250,155.12		1.350		846		
Union Bank Checking Acct.												
SYS1010	1010	Passbook/Checking Accounts	Amort	8,665,405.07		8,665,405.07	06/30/2014			1		
Subtotal and Average				8,665,405.07		8,665,405.07				1		
Union Bank Custody Acct.												
SYS1004	1004	Money Market Funds	Amort	2,111,178.99	0.010	2,111,178.99	06/30/2014	0.010		1		
Subtotal and Average				2,111,178.99		2,111,178.99		0.010		1		
U.S. Treasury Notes												
912828QJ2	1462	U.S. Treasury Coupon Securities	Fair	2,056,471.54	2.125	2,060,000.00	06/30/2014	0.419	02/29/2016	608		
912828QF0	1461	U.S. Treasury Coupon Securities	Fair	2,055,085.72	2.000	2,058,900.00	06/30/2014	0.487	04/30/2016	669		
912828VG2	1464	U.S. Treasury Coupon Securities	Fair	1,998,540.04	0.500	2,002,500.00	06/30/2014	0.538	06/15/2016	715		
912828QX1	1459	U.S. Treasury Coupon Securities	Fair	2,040,073.04	1.500	2,041,560.00	06/30/2014	0.531	07/31/2016	761		
912828RF9	1460	U.S. Treasury Coupon Securities	Fair	2,018,398.68	1.000	2,020,620.00	06/30/2014	0.571	08/31/2016	792		
912828LP3	1457	U.S. Treasury Coupon Securities	Fair	3,160,293.05	3.000	3,164,760.00	06/30/2014	0.601	09/30/2016	822		

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**City of Encinitas - YTD Report
Investments by Issuer
Sorted by Maturity Date**

CUSIP	Investment #	Security Type	Investment Class	Book Value	Current Rate	Market Value	Market Date	YTM 365	Redemption Date	Days To Maturity	Call Date	Collateral
912828RM4	1458	U.S. Treasury Coupon Securities	Fair	3,024,918.35	1.000	3,028,140.00	06/30/2014	0.640	10/31/2016	853		
912828SJ0	1463	U.S. Treasury Coupon Securities	Fair	2,000,734.78	0.875	2,007,340.00	06/30/2014	0.861	02/28/2017	973		
Subtotal and Average				18,354,515.20		18,383,820.00		0.585		780		
Wex Bank												
92937CBM9	1456	Certificates of Deposit - Bank	Amort	248,000.00	0.650	248,250.48	06/30/2014	0.650	11/16/2015	503		
Subtotal and Average				248,000.00		248,250.48		0.650		503		
Total and Average				100,426,772.56		100,510,632.89		0.544		504		

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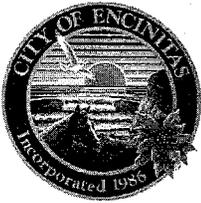
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City of Encinitas - YTD Report
Portfolio Management
Activity By Type
July 1, 2013 through June 30, 2014

CUSIP	Investment #	Issuer	Stated Rate	Transaction Date	Purchases or Deposits	Redemptions or Withdrawals	Balance
Passbook/Checking Accounts (Monthly Summary)							
SYS1010	1010	Union Bank Checking Acct.			87,637,885.59	81,167,315.75	
Subtotal					87,637,885.59	81,167,315.75	0.00
Local Agency Investment Funds (Monthly Summary)							
SYS1012	1012	CA Local Agency Invstment Fund	0.230		6,043,515.91	15,400,000.00	
Subtotal					6,043,515.91	15,400,000.00	15,027,887.08
Managed Pool Accounts (Monthly Summary)							
SYS1003	1003	CA Asset Management Program	0.060		3,465.63	9,038,896.23	
Subtotal					3,465.63	9,038,896.23	1,000,000.00
Money Market Funds (Monthly Summary)							
SYS1004	1004	Union Bank Custody Acct.	0.010		36,939,380.34	35,071,632.92	
Subtotal					36,939,380.34	35,071,632.92	2,111,178.99
Certificates of Deposit - Bank							
0606247A5	1454	Bank of Baroda	2.050	11/12/2013	248,000.00	0.00	
20033ADJ2	1455	Comenity Capital Bank	1.000	11/12/2013	248,000.00	0.00	
20451PKJ4	1470	Compass Bank	1.050	06/11/2014	248,000.00	0.00	
23204HBH0	1474	Customerrs Bank	0.950	06/18/2014	248,000.00	0.00	
628779FH8	1471	NBT Bank	0.950	06/06/2014	248,000.00	0.00	
92937CBM9	1456	Wex Bank	0.650	11/15/2013	248,000.00	0.00	
Subtotal					1,488,000.00	0.00	2,976,000.00
U.S. Treasury Coupon Securities							
912828LP3	1457	U.S. Treasury Notes	3.000	12/23/2013	3,197,343.75	0.00	
912828RM4	1458	U.S. Treasury Notes	1.000	12/23/2013	3,030,468.75	0.00	
912828QX1	1459	U.S. Treasury Notes	1.500	12/23/2013	2,050,078.13	0.00	
912828RF9	1460	U.S. Treasury Notes	1.000	12/23/2013	2,022,812.50	0.00	
912828QF0	1461	U.S. Treasury Notes	2.000	01/17/2014	2,068,671.88	0.00	
912828QJ2	1462	U.S. Treasury Notes	2.125	01/17/2014	2,071,796.88	0.00	
912828SJ0	1463	U.S. Treasury Notes	0.875	01/17/2014	2,000,859.38	0.00	
912828VG2	1464	U.S. Treasury Notes	0.500	01/17/2014	1,998,203.13	0.00	
Subtotal					18,440,234.40	0.00	18,354,515.20

**City of Encinitas - YTD Report
Portfolio Management
Activity By Type
July 1, 2013 through June 30, 2014**

CUSIP	Investment #	Issuer	Stated Rate	Transaction Date	Purchases or Deposits	Redemptions or Withdrawals	Balance
Federal Agency Coupon Securities							
3133XWE70	1428	Federal Home Loan Bank	2.500	06/13/2014	0.00	2,000,000.00	
3134G3BF6	1422	Federal Home Loan Mortgage	0.625	12/23/2013	0.00	5,000,000.00	
3137EADC0	1466	Federal Home Loan Mortgage	1.000	03/10/2014	2,012,520.00	0.00	
3137EADT3	1467	Federal Home Loan Mortgage	0.875	03/10/2014	2,006,220.00	0.00	
3137EADF3	1468	Federal Home Loan Mortgage	1.250	03/10/2014	2,024,500.00	0.00	
3135G0JA2	1473	Federal Nat'l Mortgage Assoc.	1.125	06/09/2014	1,008,814.00	0.00	
Subtotal					7,052,054.00	7,000,000.00	38,393,489.58
Federal Agency Callable Securities							
3130A1G69	1469	Federal Home Loan Bank	2.050	04/16/2014	5,000,000.00	0.00	
3134G3EN6	1418	Federal Home Loan Mortgage	1.000	12/30/2013	0.00	5,000,000.00	
3134G4TL2	1465	Federal Home Loan Mortgage	1.000	01/30/2014	2,000,000.00	0.00	
3134G56W0	1472	Federal Home Loan Mortgage	0.650	06/23/2014	1,000,000.00	0.00	
3136FTQ36	1419	Federal Nat'l Mortgage Assoc.	1.050	02/28/2014	0.00	5,000,000.00	
3135G0VR1	1452	Federal Nat'l Mortgage Assoc.	0.500	03/28/2014	0.00	1,998,577.08	
Subtotal					8,000,000.00	11,998,577.08	12,901,979.59
Corporate Medium Term Notes							
Subtotal							996,317.05
Total					165,604,535.87	159,676,421.98	91,761,367.49



**City of Encinitas - YTD Report
Activity Report
Sorted By Issuer
July 1, 2013 - June 30, 2014**

CITY OF ENCINITAS
505 S. VULCAN
ENCINITAS, ENCINITAS, CA 9
(760)633-2641

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value		Transaction Date	Par Value		Ending Balance
				Beginning Balance	Current Rate		Purchases or Deposits	Redemptions or Withdrawals	
Issuer: Ally Bank									
Certificates of Deposit - Bank									
				248,000.00					248,000.00
				248,000.00			0.00	0.00	248,000.00
Issuer: American Express Centurion									
Certificates of Deposit - Bank									
				248,000.00					248,000.00
				248,000.00			0.00	0.00	248,000.00
Issuer: Bank of Baroda									
Certificates of Deposit - Bank									
0606247A5	1454	Bank of Baroda			2.050	11/12/2013	248,000.00	0.00	
				0.00			248,000.00	0.00	248,000.00
				0.00			248,000.00	0.00	248,000.00
Issuer: BMW Bank North America									
Certificates of Deposit - Bank									
				248,000.00					248,000.00
				248,000.00			0.00	0.00	248,000.00
Issuer: CA Asset Management Program									
Managed Pool Accounts									
SYS1003	1003	CA Asset Management Program			0.060		3,465.63	9,038,896.23	
				10,035,430.60			3,465.63	9,038,896.23	1,000,000.00
				10,035,430.60			3,465.63	9,038,896.23	1,000,000.00

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Activity Report
July 1, 2013 - June 30, 2014

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value		Transaction Date	Par Value		Ending Balance
				Beginning Balance	Current Rate		Purchases or Deposits	Redemptions or Withdrawals	
Issuer: Comenity Capital Bank									
Certificates of Deposit - Bank									
20033ADJ2	1455	Comenity Capital Bank			1.000	11/12/2013	248,000.00	0.00	
Subtotal and Balance				0.00			248,000.00	0.00	248,000.00
Issuer Subtotal			0.249%	0.00			248,000.00	0.00	248,000.00
Issuer: Compass Bank									
Certificates of Deposit - Bank									
20451PKJ4	1470	Compass Bank			1.050	06/11/2014	248,000.00	0.00	
Subtotal and Balance				0.00			248,000.00	0.00	248,000.00
Issuer Subtotal			0.249%	0.00			248,000.00	0.00	248,000.00
Issuer: Customerrs Bank									
Certificates of Deposit - Bank									
23204HBH0	1474	Customerrs Bank			0.950	06/18/2014	248,000.00	0.00	
Subtotal and Balance				0.00			248,000.00	0.00	248,000.00
Issuer Subtotal			0.249%	0.00			248,000.00	0.00	248,000.00
Issuer: Federal Farm Credit									
Federal Agency Coupon Securities									
Subtotal and Balance				4,000,000.00					4,000,000.00
Issuer Subtotal			4.013%	4,000,000.00			0.00	0.00	4,000,000.00
Issuer: Federal Home Loan Bank									
Federal Agency Coupon Securities									
3133XWE70	1428	Federal Home Loan Bank			2.500	06/13/2014	0.00	2,000,000.00	
Subtotal and Balance				12,000,000.00			0.00	2,000,000.00	10,000,000.00
Federal Agency Callable Securities									
3130A1G69	1469	Federal Home Loan Bank			2.050	04/16/2014	5,000,000.00	0.00	

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Activity Report
July 1, 2013 - June 30, 2014

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value		Transaction Date	Par Value		Ending Balance
				Beginning Balance	Current Rate		Purchases or Deposits	Redemptions or Withdrawals	
Subtotal and Balance				2,900,000.00			5,000,000.00	0.00	7,900,000.00
Issuer Subtotal				17.957%	14,900,000.00		5,000,000.00	2,000,000.00	17,900,000.00
Issuer: Federal Home Loan Mortgage									
Federal Agency Coupon Securities									
3134G3BF6	1422	Federal Home Loan Mortgage			0.625	12/23/2013	0.00	5,000,000.00	
3137EADC0	1466	Federal Home Loan Mortgage			1.000	03/10/2014	2,000,000.00	0.00	
3137EADT3	1467	Federal Home Loan Mortgage			0.875	03/10/2014	2,000,000.00	0.00	
3137EADF3	1468	Federal Home Loan Mortgage			1.250	03/10/2014	2,000,000.00	0.00	
Subtotal and Balance				11,000,000.00			6,000,000.00	5,000,000.00	12,000,000.00
Federal Agency Callable Securities									
3134G3EN6	1418	Federal Home Loan Mortgage			1.000	12/30/2013	0.00	5,000,000.00	
3134G4TL2	1465	Federal Home Loan Mortgage			1.000	01/30/2014	2,000,000.00	0.00	
3134G56W0	1472	Federal Home Loan Mortgage			0.650	06/23/2014	1,000,000.00	0.00	
Subtotal and Balance				5,000,000.00			3,000,000.00	5,000,000.00	3,000,000.00
Issuer Subtotal				15.048%	16,000,000.00		9,000,000.00	10,000,000.00	15,000,000.00
Issuer: Federal Nat'l Mortgage Assoc.									
Federal Agency Coupon Securities									
3135G0JA2	1473	Federal Nat'l Mortgage Assoc.			1.125	06/09/2014	1,000,000.00	0.00	
Subtotal and Balance				11,000,000.00			1,000,000.00	0.00	12,000,000.00
Federal Agency Callable Securities									
3136FTQ36	1419	Federal Nat'l Mortgage Assoc.			1.050	02/28/2014	0.00	5,000,000.00	
3135GOVR1	1452	Federal Nat'l Mortgage Assoc.			0.500	03/28/2014	0.00	2,000,000.00	
Subtotal and Balance				9,000,000.00			0.00	7,000,000.00	2,000,000.00
Issuer Subtotal				14.045%	20,000,000.00		1,000,000.00	7,000,000.00	14,000,000.00
Issuer: GE Capital Bank									
Certificates of Deposit - Bank									
Subtotal and Balance				248,000.00					248,000.00
Issuer Subtotal				0.249%	248,000.00		0.00	0.00	248,000.00

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City of Encinitas - YTD Report
 Activity Report
 July 1, 2013 - June 30, 2014

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value		Current Rate	Transaction Date	Par Value		Ending Balance
				Beginning Balance				Purchases or Deposits	Redemptions or Withdrawals	
Issuer: General Electric Capital Corp										
Corporate Medium Term Notes										
Subtotal and Balance				1,000,000.00						1,000,000.00
Issuer Subtotal				1,000,000.00			0.00	0.00		1,000,000.00
Issuer: Goldman Sachs Bank, USA										
Certificates of Deposit - Bank										
Subtotal and Balance				248,000.00						248,000.00
Issuer Subtotal				248,000.00			0.00	0.00		248,000.00
Issuer: CA Local Agency Investment Fund										
Local Agency Investment Funds										
SYS1012	1012	CA Local Agency Investment Fund			0.230			6,043,515.91	15,400,000.00	
Subtotal and Balance				24,384,371.17				6,043,515.91	15,400,000.00	15,027,887.08
Issuer Subtotal				24,384,371.17				6,043,515.91	15,400,000.00	15,027,887.08
Issuer: NBT Bank										
Certificates of Deposit - Bank										
628779FH8	1471	NBT Bank			0.950	06/06/2014		248,000.00	0.00	
Subtotal and Balance				0.00				248,000.00	0.00	248,000.00
Issuer Subtotal				0.00				248,000.00	0.00	248,000.00
Issuer: Sallie Mae Bank/Murray										
Certificates of Deposit - Bank										
Subtotal and Balance				248,000.00						248,000.00
Issuer Subtotal				248,000.00				0.00	0.00	248,000.00
Issuer: Union Bank Checking Acct.										

City of Encinitas - YTD Report
Activity Report
July 1, 2013 - June 30, 2014

CUSIP	Investment #	Issuer	Percent of Portfolio	Par Value		Transaction Date	Par Value		Ending Balance
				Beginning Balance	Current Rate		Purchases or Deposits	Redemptions or Withdrawals	
Issuer: Union Bank Checking Acct.									
Passbook/Checking Accounts									
SYS1010	1010	Union Bank Checking Acct.					87,637,885.59	81,167,315.75	
		Subtotal and Balance		2,194,835.23			87,637,885.59	81,167,315.75	8,665,405.07
		Issuer Subtotal	8.693%	2,194,835.23			87,637,885.59	81,167,315.75	8,665,405.07
Issuer: Union Bank Custody Acct.									
Money Market Funds									
SYS1004	1004	Union Bank Custody Acct.			0.010		36,939,380.34	35,071,632.92	
		Subtotal and Balance		243,431.57			36,939,380.34	35,071,632.92	2,111,178.99
		Issuer Subtotal	2.118%	243,431.57			36,939,380.34	35,071,632.92	2,111,178.99
Issuer: U.S. Treasury Notes									
U.S. Treasury Coupon Securities									
912828LP3	1457	U.S. Treasury Notes			3.000	12/23/2013	3,000,000.00	0.00	
912828RM4	1458	U.S. Treasury Notes			1.000	12/23/2013	3,000,000.00	0.00	
912828QX1	1459	U.S. Treasury Notes			1.500	12/23/2013	2,000,000.00	0.00	
912828RF9	1460	U.S. Treasury Notes			1.000	12/23/2013	2,000,000.00	0.00	
912828QF0	1461	U.S. Treasury Notes			2.000	01/17/2014	2,000,000.00	0.00	
912828QJ2	1462	U.S. Treasury Notes			2.125	01/17/2014	2,000,000.00	0.00	
912828SJ0	1463	U.S. Treasury Notes			0.875	01/17/2014	2,000,000.00	0.00	
912828VG2	1464	U.S. Treasury Notes			0.500	01/17/2014	2,000,000.00	0.00	
		Subtotal and Balance		0.00			18,000,000.00	0.00	18,000,000.00
		Issuer Subtotal	18.058%	0.00			18,000,000.00	0.00	18,000,000.00
Issuer: Wex Bank									
Certificates of Deposit - Bank									
92937CBM9	1456	Wex Bank			0.650	11/15/2013	248,000.00	0.00	
		Subtotal and Balance		0.00			248,000.00	0.00	248,000.00
		Issuer Subtotal	0.249%	0.00			248,000.00	0.00	248,000.00
		Total	100.000%	94,246,068.57			165,112,247.47	159,677,844.90	99,680,471.14

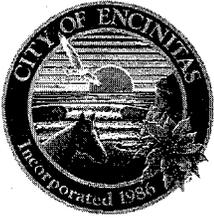
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**City of Encinitas - YTD Report
Portfolio Management
Interest Earnings Summary
June 30, 2014**

	June 30 Month Ending	Fiscal Year To Date
CD/Coupon/Discount Investments:		
Interest Collected	989,249.44	989,249.44
Plus Accrued Interest at End of Period	308,759.17	308,759.17
Less Accrued Interest at Beginning of Period	(232,774.79)	(232,774.79)
Less Accrued Interest at Purchase During Period	(87,844.52)	(87,844.52)
Interest Earned during Period	977,389.30	977,389.30
Adjusted by Premiums and Discounts	-588,050.41	-588,050.41
Adjusted by Capital Gains or Losses	1,422.92	1,422.92
Earnings during Periods	390,761.81	390,761.81
Pass Through Securities:		
Interest Collected	0.00	0.00
Plus Accrued Interest at End of Period	0.00	0.00
Less Accrued Interest at Beginning of Period	(0.00)	(0.00)
Less Accrued Interest at Purchase During Period	(0.00)	(0.00)
Interest Earned during Period	0.00	0.00
Adjusted by Premiums and Discounts	0.00	0.00
Adjusted by Capital Gains or Losses	0.00	0.00
Earnings during Periods	0.00	0.00
Cash/Checking Accounts:		
Interest Collected	47,112.44	47,112.44
Plus Accrued Interest at End of Period	6,874.26	6,874.26
Less Accrued Interest at Beginning of Period	(15,886.07)	(15,886.07)
Interest Earned during Period	38,100.63	38,100.63
Total Interest Earned during Period	1,015,489.93	1,015,489.93
Total Adjustments from Premiums and Discounts	-588,050.41	-588,050.41
Total Capital Gains or Losses	1,422.92	1,422.92
Total Earnings during Period	428,862.44	428,862.44



**City of Encinitas - YTD Report
Interest Earnings
Sorted by Security Type - Maturity Date
July 1, 2013 - June 30, 2014
Yield on Beginning Book Value**

CITY OF ENCINITAS
505 S. VULCAN
ENCINITAS, ENCINITAS, CA 9
(760)633-2641

CUSIP	Investment #	Fund	Issuer	Ending Par Value	Beginning Book Value	Ending Book Value	Maturity Date	Current Rate	Annualized Yield	Adjusted Interest Earnings		
										Interest Earned	Amortization/ Accretion	Adjusted Interest Earnings
Security Type: Local Agency Investment Funds												
SYS1012	1012	001	LAIF	15,027,887.08	24,384,371.17	15,027,887.08		0.230	0.144	35,128.13	0.00	35,128.13
			Subtotal	15,027,887.08	24,384,371.17	15,027,887.08			0.144	35,128.13	0.00	35,128.13
Security Type: Managed Pool Accounts												
SYS1003	1003	001	CAMP	1,000,000.00	10,035,430.60	1,000,000.00		0.060	0.028	2,857.32	0.00	2,857.32
			Subtotal	1,000,000.00	10,035,430.60	1,000,000.00			0.028	2,857.32	0.00	2,857.32
Security Type: Money Market Funds												
SYS1004	1004	001	UBCUST	2,111,178.99	243,431.57	2,111,178.99		0.010	0.047	115.18	0.00	115.18
			Subtotal	2,111,178.99	243,431.57	2,111,178.99			0.047	115.18	0.00	115.18
Security Type: Certificates of Deposit - Bank												
05568P3A3	1450	001	BMWBNK	248,000.00	248,000.00	248,000.00	10/13/2015	0.650	0.650	1,612.00	0.00	1,612.00
38143AP25	1435	001	GLDSCH	248,000.00	248,000.00	248,000.00	10/26/2015	1.050	1.050	2,604.00	0.00	2,604.00
92937CBM9	1456	001	WEXBNK	248,000.00	0.00	248,000.00	11/16/2015	0.650	0.650	1,006.95	0.00	1,006.95
02005QV34	1449	001	ALLYBK	248,000.00	248,000.00	248,000.00	04/11/2016	0.650	0.650	1,612.00	0.00	1,612.00
795450PZ2	1437	001	SMAEBN	248,000.00	248,000.00	248,000.00	10/24/2016	1.350	1.350	3,348.00	0.00	3,348.00
36160XY43	1439	001	GECBNK	248,000.00	248,000.00	248,000.00	10/26/2016	1.350	1.350	3,348.00	0.00	3,348.00
20033ADJ2	1455	001	COMNTY	248,000.00	0.00	248,000.00	11/14/2016	1.000	1.000	1,569.53	0.00	1,569.53
20451PKJ4	1470	001	COMPSS	248,000.00	0.00	248,000.00	05/11/2017	1.050	1.050	142.68	0.00	142.68
628779FH8	1471	001	NBTBNK	248,000.00	0.00	248,000.00	06/06/2017	0.950	0.950	161.37	0.00	161.37
23204HBH0	1474	001	CUSTBN	248,000.00	0.00	248,000.00	06/19/2017	0.950	0.950	83.91	0.00	83.91
02587DLV8	1438	001	AMEXCN	248,000.00	248,000.00	248,000.00	10/25/2017	1.500	1.500	3,720.00	0.00	3,720.00
0606247A5	1454	001	BARODA	248,000.00	0.00	248,000.00	11/13/2018	2.050	2.050	3,217.55	0.00	3,217.55
			Subtotal	2,976,000.00	1,488,000.00	2,976,000.00			1.123	22,425.99	0.00	22,425.99
Security Type: U.S. Treasury Coupon Securities												
912828QJ2	1462	001	UST	2,000,000.00	0.00	2,056,471.54	02/29/2016	2.125	0.407	19,136.10	-15,325.34	3,810.76
912828QF0	1461	001	UST	2,000,000.00	0.00	2,055,085.72	04/30/2016	2.000	0.485	18,120.35	-13,586.16	4,534.19

Data Updated: SET_ANNU: 07/23/2014 17:28
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No fiscal year history available

Portfolio ENCI
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IE (PRF_IE) 7.2.0
Report Ver. 7.3.3b

City of Encinitas - YTD Report
Interest Earnings
July 1, 2013 - June 30, 2014

CUSIP	Investment #	Fund	Issuer	Ending Par Value	Beginning Book Value	Ending Book Value	Maturity Date	Current Annualized Rate	Annualized Yield	Adjusted Interest Earnings		
										Interest Earned	Amortization/ Accretion	Adjusted Interest Earnings
Security Type: U.S. Treasury Coupon Securities												
912828VG2	1464	001	UST	2,000,000.00	0.00	1,998,540.04	06/15/2016	0.500	0.539	4,530.57	336.91	4,867.48
912828QX1	1459	001	UST	2,000,000.00	0.00	2,040,073.04	07/31/2016	1.500	0.533	15,693.16	-10,005.09	5,688.07
912828RF9	1460	001	UST	2,000,000.00	0.00	2,018,398.68	08/31/2016	1.000	0.567	10,386.44	-4,413.82	5,972.62
912828LP3	1457	001	UST	3,000,000.00	0.00	3,160,293.05	09/30/2016	3.000	0.589	46,853.72	-37,050.70	9,803.02
912828RM4	1458	001	UST	3,000,000.00	0.00	3,024,918.35	10/31/2016	1.000	0.641	15,662.08	-5,550.40	10,111.68
912828SJ0	1463	001	UST	2,000,000.00	0.00	2,000,734.78	02/28/2017	0.875	0.857	7,879.57	-124.60	7,754.97
			Subtotal	18,000,000.00	0.00	18,354,515.20			0.581	138,261.99	-85,719.20	52,542.79
Security Type: Federal Agency Coupon Securities												
3134G3BF6	1422	001	FHLMC	0.00	5,006,541.80	0.00	12/23/2013	0.625	0.349	14,930.56	-6,541.80	8,388.76
3133XWE70	1428	001	FHLB	0.00	2,040,284.31	0.00	06/13/2014	2.500	0.372	47,500.00	-40,284.31	7,215.69
3133XUPG2	1445	001	FHLB	2,000,000.00	2,060,092.31	2,007,838.13	08/25/2014	2.875	0.255	57,500.00	-52,254.18	5,245.82
31398A3G5	1426	001	FNMA	5,000,000.00	5,060,062.07	5,009,424.26	09/08/2014	1.500	0.481	75,000.00	-50,637.81	24,362.19
3135G0DW0	1441	001	FNMA	2,000,000.00	2,009,406.61	2,002,336.92	10/30/2014	0.625	0.270	12,500.00	-7,069.69	5,430.31
3133X9DC1	1423	001	FHLB	2,000,000.00	2,107,256.75	2,028,935.39	11/14/2014	4.500	0.554	90,000.00	-78,321.36	11,678.64
31331SPQ0	1430	001	FFCRED	2,000,000.00	2,126,872.08	2,048,930.19	02/17/2015	4.375	0.449	87,500.00	-77,941.89	9,558.11
3133XWX95	1427	001	FHLB	2,000,000.00	2,076,575.25	2,031,530.98	03/13/2015	2.750	0.479	55,000.00	-45,044.27	9,955.73
3135G0LN1	1444	001	FNMA	2,000,000.00	2,005,178.45	2,002,592.82	07/02/2015	0.500	0.370	10,000.00	-2,585.63	7,414.37
3134G3ZA1	1448	001	FHLMC	2,000,000.00	2,007,227.95	2,003,431.86	08/28/2015	0.500	0.351	10,000.00	-2,962.76	7,037.24
313370JB5	1442	001	FHLB	2,000,000.00	2,058,187.47	2,031,671.66	09/11/2015	1.750	0.412	35,000.00	-26,515.81	8,484.19
313371NW2	1429	001	FHLB	2,000,000.00	2,037,435.37	2,022,120.90	12/11/2015	1.375	0.598	27,500.00	-15,314.47	12,185.53
3134A4ZT4	1440	001	FHLMC	2,000,000.00	2,219,182.08	2,133,228.32	01/19/2016	4.750	0.408	95,000.00	-85,953.76	9,046.24
3133ECGT5	1447	001	FFCRED	2,000,000.00	2,000,286.79	1,999,794.87	03/01/2016	0.410	0.416	8,200.00	123.08	8,323.08
3137EADQ9	1446	001	FHLMC	2,000,000.00	2,004,494.93	2,002,926.93	05/13/2016	0.500	0.421	10,000.00	-1,568.00	8,432.00
3135G0ES8	1453	001	FNMA	2,000,000.00	2,027,830.22	2,017,374.24	11/15/2016	1.375	0.995	27,500.00	-7,324.04	20,175.96
3137EADT3	1467	001	FHLMC	2,000,000.00	0.00	2,007,951.83	02/22/2017	0.875	0.764	5,395.84	-650.11	4,745.73
3137EADC0	1466	001	FHLMC	2,000,000.00	0.00	2,011,341.94	03/08/2017	1.000	0.783	6,166.67	-1,289.17	4,877.50
3135G0JA2	1473	001	FNMA	1,000,000.00	0.00	1,009,939.69	04/27/2017	1.125	0.823	687.50	-186.81	500.69
3137EADF3	1468	001	FHLMC	2,000,000.00	0.00	2,022,118.65	05/12/2017	1.250	0.850	7,708.34	-2,381.35	5,326.99
			Subtotal	38,000,000.00	38,846,914.44	38,393,489.58			0.469	683,088.91	-504,704.14	178,384.77
Security Type: Federal Agency Callable Securities												
3134G3EN6	1418	001	FHLMC	0.00	5,000,000.00	0.00	06/30/2015	1.000	0.997	24,861.11	0.00	24,861.11
3135G0RS4	1443	001	FNMA	2,000,000.00	2,003,448.98	2,001,979.59	11/06/2015	0.500	0.426	10,000.00	-1,469.39	8,530.61
3135G0VR1	1452	001	FNMA	0.00	1,999,938.30	0.00	03/28/2016	0.500	0.537	7,416.67	527.67	7,944.34
313383FB2	1451	001	FHLB	2,900,000.00	2,900,000.00	2,900,000.00	12/19/2016	0.580	0.580	16,820.00	0.00	16,820.00
3134G56W0	1472	001	FHLMC	1,000,000.00	0.00	1,000,000.00	12/23/2016	0.650	0.659	144.44	0.00	144.44

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City of Encinitas - YTD Report
Interest Earnings
July 1, 2013 - June 30, 2014

CUSIP	Investment #	Fund	Issuer	Ending Par Value	Beginning Book Value	Ending Book Value	Maturity Date	Current Rate	Annualized Yield	Adjusted Interest Earnings		
										Interest Earned	Amortization/ Accretion	Adjusted Interest Earnings
Security Type: Federal Agency Callable Securities												
3134G4TL2	1465	001	FHLMC	2,000,000.00	0.00	2,000,000.00	01/30/2017	1.000	1.007	8,388.89	0.00	8,388.89
3136FTQ36	1419	001	FNMA	0.00	5,000,000.00	0.00	02/28/2017	1.050	1.043	34,562.50	0.00	34,562.50
3130A1G69	1469	001	FHLB	5,000,000.00	0.00	5,000,000.00	04/16/2019	2.050	2.051	21,354.17	0.00	21,354.17
			Subtotal	12,900,000.00	16,903,387.28	12,901,979.59			0.870	123,547.78	-941.72	122,606.06
Security Type: Corporate Medium Term Notes												
36962G4N1	1421	001	GECC	1,000,000.00	993,002.40	996,317.05	08/11/2015	1.000	1.347	10,064.63	3,314.65	13,379.28
			Subtotal	1,000,000.00	993,002.40	996,317.05			1.347	10,064.63	3,314.65	13,379.28
			Total	91,015,066.07	92,894,537.46	91,761,367.49			0.432	1,015,489.93	-588,050.41	427,439.52

ATTACHMENT 2

Investment of Bond Proceeds

CITY OF ENCINITAS
INVESTMENT OF BOND PROCEEDS
For the Fiscal Year ended June 30, 2014

GOVERNMENTAL FUNDS	TRUSTEE CASH & INVESTMENTS	Yield	Maturity Date	Market Value	FY 2013-14	
					Income	Budget
ENCINITAS PUBLIC FINANCING AUTHORITY						
1997 CERTIFICATES OF PARTICIPATION (CIVIC CENTER)						
Bond Fund	Blackrock Money Market Fund		1 day	\$ 1	3	
Reserve Fund	Guaranteed Investment Contract	5.97%	12/1/2016	619,500	36,881	40,000
				\$ 619,501	\$ 36,884	\$ 40,000
2006 LEASE REVENUE BONDS (PUBLIC LIBRARY)						
Bond Fund	Blackrock Money Market Fund	0.02%		\$ 63	53	
Interest Account	Federated Prime Cash Money Market Fund	0.02%		0	1	
Reserve Fund	Federated Prime Cash Money Market Fund	0.02%		568,725	172.12	-
				\$ 568,788	\$ 226	\$ 0
2010 LEASE REVENUE BONDS (COMM PARK ACQUISITION)						
Bond Fund	Blackrock Money Market Fund	0.00%		\$ 1	2	
Reserve Fund	Blackrock Money Market Fund	0.01%		1,411,867	209	-
				\$ 1,411,868	\$ 211	\$ 0
2013 LEASE REVENUE BONDS (COMM PARK DEVELOPMENT)						
Bond Fund	Blackrock Money Market Fund	0.00%		\$ 0	1	
Project Fund	Blackrock Money Market Fund	0.01%		-	371	-
				\$ 0	\$ 372	\$ 0
ENCINITAS PUBLIC FINANCING AUTHORITY (TOTALS) (A)				\$ 2,600,157	\$ 37,694	\$ 40,000
CITY OF ENCINITAS / ASSOCIATION OF BAY AREA GOVERNMENTS (ABAG)						
2002 LEASE REVENUE BONDS (ABAG FUNDING)						
Bond Fund	Wells Fargo Money Market Fund	0.01%		\$ 383	4	
Principal Fund	Wells Fargo Money Market Fund	0.01%		255,000		
Interest Fund	Wells Fargo Money Market Fund	0.01%		24,768		
Reserve Fund	Wells Fargo Money Market Fund	0.01%		216,008	148	-
OTHER CITY BOND ISSUES (B)				\$ 496,159	\$ 6	\$ 0
TOTALS FOR GOVERNMENTAL FUNDS (A) + (B)				\$ 3,096,316	\$ 37,700	\$ 40,000
ENTERPRISE FUNDS						
SAN DIEGUITO WATER DISTRICT						
2004 WATER REVENUE BONDS						
Bond Fund	Blackrock Money Market Fund	0.00%		\$ 1	3	
Reserve Fund	Blackrock Money Market Fund	0.01%		238		
Reserve Fund	Federated Prime Cash Money Market Fund	0.02%		1,039,738	315	-
TOTAL				\$ 1,039,977	\$ 318	\$ 0
TOTALS FOR ENTERPRISE FUNDS (C)				\$ 1,039,977	\$ 318	\$ 0
TOTAL TRUSTEE CASH & INVESTMENTS (A) + (B) + (C)				\$ 4,136,293	\$ 38,018	\$ 40,000

NOTE: the City's leases for capital equipment do not require any trustee deposits, and thus, are not listed on this summary

ATTACHMENT 3

Investment Policy

plans. Assets held in those plans are held in trust for the participants, and are not assets of the City. The City does not have any authority over the investments held in these trusts.

III. Prudence

Investments shall be made with reasonable financial judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard. California Gov't Code 53600.3 states that, "When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. The standard shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with established procedures and exercising due prudence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

IV. Investment Objectives

A. **Safety of Principal** - the first objective of this policy is to ensure the safety of principal. The portfolio shall be planned and managed to minimize the risk of actual loss of principal. Principal is defined as the original purchase price of the security, excluding any purchase of accrued interest, up to the par (face) value of the security. Any purchase amount above par value (premium) is considered to be a purchase of accrued interest, and is excluded from the calculation of principal amount. The Investment Officer shall consider both credit risk and concentration risk (the concept of diversification) when assessing safety, and shall follow the guidelines outlined later in this policy to achieve that objective.

B. **Liquidity** - The second objective is the maintenance of sufficient liquidity to meet all operating and capital spending requirements that can be reasonably anticipated. Liquidity is further broken down between primary and secondary liquidity. **Primary liquidity** is defined as funds which are available to the City to pay demands within 48 hours without loss of interest. **Secondary liquidity** is defined as funds invested in authorized investments that mature within a one-year time period, minimizing market risk.

C. **Return on investments** - The third objective is yield, specifically, attaining a market rate of return over time, consistent with Council direction as to acceptable levels of risk. Refer to Section XV below for further discussion of performance measurement.

V. Delegation of Authority

Authority and responsibility to manage the City of Encinitas' Investment Program rests first with the City Council. Primary management responsibility rests with the **City Treasurer**. The City of Encinitas Municipal Code designates that the Finance Director shall serve as City Treasurer. The Finance Director/City Treasurer has the option to designate another individual within the organization to assume some, or all, of the duties described in this Policy. The Finance Director has assigned some of those duties to the City Finance Manager III. For purposes day-to-day management of the Investment Program, the Finance Manager III shall be designated as the **Investment Officer**, and the duties referred to herein will generally cite the Investment Officer as performing those tasks.

Investment Procedures

The Investment Officer is responsible for establishing written investment procedures for the management and operation of the Investment Program, consistent with this Policy. Those procedures shall include reference to such items as: custody/safekeeping, repurchase agreements (if applicable), wire transfer agreements, banking service agreements, and explicit delegation of authority to personnel involved in the processing of banking or investment transactions. No person may engage in any investment transaction except as provided under the terms of this Policy and the established procedures.

VI. Ethics, & Conflict of Interest

The investment responsibility carries with it the responsibility of ensuring that investments placed are done so without improper influence or the appearance of improper influence. All officers and employees (officials) involved in the investment function shall adhere to the State's Code of Economic Interest and to the following:

Officials shall refrain from personal business activity that could conflict with proper and impartial execution of the Investment Program, or that could impair their ability to make impartial investment decisions. Further, officials shall not personally or through a close relative maintain any accounts, interest, or private dealings with any firm with which the City places investments, with the exception of regular savings, checking and money market accounts, or other similar transactions that are offered on a non-negotiable basis to the general public. Any such relationships shall be disclosed annually to the City Clerk in conjunction with annual disclosure statements of economic interest.

VII. Authorized Financial Dealers and Institutions

The Investment Officer shall maintain a list of **qualified financial institutions** authorized to provide financial or investment services to the City.

The City shall contract with one institution to provide **general banking services**, which shall be reviewed at least every five years. City Council shall approve the selected institution and the contract for banking services.

The City shall contract with one institution to provide **investment custody services**, which shall be reviewed at least every five (5) years. City Council shall approve the selected institution and the contract for custody services.

The Investment Officer shall maintain a list of **qualified security broker-dealers** authorized to provide financial or investment services to the City. To be eligible for consideration to become an authorized provider, each Broker/Firm shall meet the following MINIMUM requirements:

- (1) have a net capital position in excess of \$10 million,
- (2) have been in business for at least five years,
- (3) are currently licensed as a broker-dealer or investment adviser in California, and
- (4) Must carry adequate insurance coverage including liability, errors and omissions, and workers compensation (if applicable.)

Firms providing only representation of money market funds are exempt for requirement #1, but must still comply with all other requirements, including those listed below.

The City Council shall approve the initial authorization of any broker-dealer. Authorized firms shall be notified by the Investment Officer via an engagement letter, which outlines each parties' responsibilities (primarily the continuing compliance requirements discussed directly below). There is no contract for professional services or term to the engagement. The Investment Officer shall periodically evaluate the performance of all qualified broker-dealers, and determine if any changes need to be made.

All broker-dealers authorized to do business with the City of Encinitas must also comply with the following requirements:

- (1) Firms must submit audited financial statements annually, within six months of their fiscal year-end,
- (2) Firms must provide proof of their NASD certification, and must disclose to the City immediately any regulatory actions or complaints against the broker assigned to the City account,
- (3) Firms must provide proof of their registration/license to do business in the State of California, and shall immediately disclose to the City any change in that status.
- (4) Firms must certify in writing that they have received, read, and agree to comply with the City of Encinitas' most recently adopted Investment Policy.

VIII. Authorized & Suitable Investment Instruments

As a unit of local government in the State of California, the City of Encinitas is restricting itself to the investments authorized by Government Cod, Sections 53600 through 53635 (the Gov't "Code") except as otherwise provided herein by specific additional Council actions.

SPECIFIC INVESTMENT TYPES AND AMOUNTS - The Investment Officer is authorized to invest in only the following types of investments listed below in **Section VIII.**, unless specifically authorized in advance by the Finance Director/City Treasurer.

INVESTMENT ALLOCATIONS - The **Maximum** allocations listed below refer to the percentage of the total portfolio that may be invested in each instrument under the provisions of the Gov't Code. The **Target** allocations refer to guidelines the Investment Officer generally follows, in order to effect proper diversification of the portfolio and limit concentration risk. The Investment Officer is permitted to exceed these target allocations for temporary periods. Any asset allocation that exceeds the **target** for a period of more than three months shall be reported to the Finance Director/City Treasurer.

For purposes of calculating the percentage allocations, the assumption will be applied that the size of the portfolio for any fiscal year shall be determined by the total par value of the portfolio at the beginning of the first day of the fiscal year. Any investment types that exceed the maximum allowable under the Gov't Code shall be reported to the City Council in the quarterly investment report.

INVESTMENT ALLOCATIONS

	<u>MAXIMUM STATE LAW</u>	<u>TARGET INV POLICY</u>
(1) Repurchase agreements	NO LIMIT	20%

This type of investment is only authorized in relation to the City's general banking arrangements, in which excess cash balances are "swept" into an interest earning account overnight. Maximum maturity is one day. All balances are required to be properly collateralized at 102% of par value in accordance with State requirements.

(2) CA Local Agency Inv Fund (LAIF)	\$80 million	30%
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The \$80 million listed under "MAXIMUM STATE LAW" refers to the LAIF limit on maximum deposits per local agency, not to the CA gov't code restrictions. The City of Encinitas maintains two accounts with the LAIF, one in the name of the City and the other in the name of the San Dieguito Water District. Each account has a deposit limit of \$40 million. Since San Dieguito Water District is a component unit of the City, the City may legally utilize the SDWD account in the operation of the City Pool. Thus, SDWD owns its ratable share of all City Pooled investments, but does not have a direct ownership interest in the LAIF account in its name.

(3) Other Gov't Managed Pools	NO LIMIT	NO LIMIT
<i>Per Issuer</i>		10% per Pool

Investments in individual pools shall be limited to 10% of the total portfolio. Currently approved pools are the San Diego County Investment Pool and the California Asset Management Program (CAMP). The City Council must approve the addition of any other governmental pools.

(4) Mutual Funds (Total)	20%	20%
<i>Per Issuer</i>	10%	10%
(A) Money Market Mutual Funds	N/A	20%
<i>Per Issuer</i>	N/A	10%

Money Market Mutual Funds have a stable NAV (net asset value) of \$1.00 as defined under United States Securities and Exchange Commission (SEC) rule 2a-7. Qualifying funds must meet one of the following criteria: (1) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, OR (2) Retained an Investment Advisor registered or exempt from registration with the SEC with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500 million.

INVESTMENT ALLOCATIONS (continued)

	<u>MAXIMUM STATE LAW</u>	<u>TARGET INV POLICY</u>
(B) Bond Mutual Funds	N/A	10%
<i>Per Issuer</i>	N/A	\$5 million

Bond Mutual Funds are similar to Money Market Mutual Funds, and are subject to the same limitations as Money Market Mutual Funds. In other words, the total allocation to Mutual Funds (investment types 4 & 5) is limited to 20% of the total portfolio. Bond Mutual Funds typically have a weighted average maturity of greater than 70 days, and are subject to more volatility and market risk. They have a net asset value (price) that can change based on market conditions. Because of the higher risk profile, the City is limiting investment in Bond Mutual Funds to no more than 10% of the total portfolio, and to \$5 million per issuer.

Currently, SEC regulations are being drafted that will likely change the accounting and measurement focus for certain money market funds. Specifically, certain funds will no longer be permitted to maintain a "stable NAV" of \$1.00. They will be required to "mark-to-market" all investments every working day. This could, and likely will periodically, change the overall value of the fund. This would create either a gain or loss on the fund, depending on the effect of interest rate and credit risk changes. For the next period, the City of Encinitas will not be investing in any money market funds which are required to, or actually adopt, what is referred to as a "floating NAV."

(5) Certificates of Deposit (CD's)	NO LIMIT	10%
<i>Per Issuer</i>	NO LIMIT	\$1 million

All CD's must be either insured by the FDIC or properly collateralized, pursuant to Section X below. Maturity shall not exceed one year. No more than \$1 million per issuer. To be eligible to receive deposits from the City of Encinitas, each qualified financial institution must have received an overall rating of not less than "satisfactory" in its most recent evaluation by regulators of its record of meeting the credit needs of its community.

(6) Negotiable Certificates of Deposit	30%	10%
<i>Per Issuer</i>		\$1 million

*All Negotiable CD's must be issued by a provider rated either: (1) **Aaa** by Moody's, (2) **AAA** by Standard & Poors, or (3) **Aa1** by Moody's and **AA+** by Standard & Poors. Investments with institutions rated at least **Aa3** and **AA-** will be allowed, but shall be properly collateralized pursuant to Section X below. Investments of \$250,000 or less that are fully insured by the FDIC are exempt from the above credit rating requirements. Maturity shall not exceed five years. No more than \$1 million per issuer.*

INVESTMENT ALLOCATIONS (continued)

		<u>MAXIMUM STATE LAW</u>	<u>TARGET INV POLICY</u>
(7)	Bankers Acceptances	40%	10%
	<i>Per Issuer</i>	30%	\$1 million

Bankers Acceptances (BA's) represent a time draft drawn on and accepted by a Bank for payment of the shipment or storage of merchandise. They are generally considered a very safe investment since both the credit of the issuer and the Bank is pledged for repayment. They must not exceed 180 days maturity. BA's must have an underlying credit rating of A1/P1, and are limited to \$1 million per issuer.

(8)	U.S. Treasury Bills, Notes and Bonds	NO LIMIT	50%
(9)	U.S. Government-Sponsored Agencies	NO LIMIT	60%
	<i>Per Issuer</i>		15%

City shall invest primarily in securities issued by Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bureau (FFCB). City may invest in Student Loan Marketing Association (SLMA), Private Equity Funding Corporation (PEFCO) and Tennessee Valley Authority (TVA); however, the overall limit of 60% still applies. City may also invest in the Government National Mortgage Association, but only via authorized Mutual Funds cited in Category 5 above, and subject to those limitations.

(10)	Commercial Paper	25%	25%
	<i>Per Issuer</i>	<i>(see below)</i>	\$5 million

Commercial Paper (CP) is a short-term I.O.U. issued by large corporations of high credit standing which is unsecured. Investments are limited to only "prime quality" CP issued with the highest letter and number rating provided by one of the three nationally recognized rating agencies. City limits itself only to CP rated A-1 or better by Standard & Poors and P-1 by Moodys. Issuing corporations must be (1) organized and operating within the United States, (2) have total assets in excess of \$500 million, and (3) have a "A" or higher rating for the issuers other debt obligations. Organized and operating within the United States includes global companies that sponsor United States commercial paper programs. City may not purchase more than 10% of outstanding commercial paper of any single corporate issuer. The maximum allowable maturity is 270 days or less.

(11)	Commercial Medium-Term Notes	30%	15%
	<i>Per Issuer</i>		\$1 million

*Medium-Term Notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating in the United States or by depository institutions licensed by the United States. State Code requires a credit rating of "A" or better by one nationally recognized rating agency. The City is further limiting itself to notes that are rated **Aa3 or better** (Moody's) and **AA- or better** (S & P).*

INVESTMENT ALLOCATIONS (continued)

	<u>MAXIMUM STATE LAW</u>	<u>TARGET INV POLICY</u>
(12) Guaranteed Investment Contracts <i>Per Issuer</i>		10% \$5 million

*Guaranteed Investment Contracts (GIC's) are corporate obligations similar to medium-term notes, but are issued directly to the Agency by the issuer in the form of an investment contract. They are generally longer term in nature. They are generally utilized for the investment of bond proceeds, but may be utilized for the investment of Pooled funds. Uncollateralized GIC's are permitted only with issuers rated **Aaa** (Moody's) and/or **AAA** (Standard & Pools) Collateralized GIC's are permitted with issuers rated **Aa2 or better** (Moody's) and **AA or better** (Standard & Pools). No more than \$5 million per issuer.*

(13) Demand Deposits (non-interest bearing) <i>Per Issuer</i>	0-2% 0-2%
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Non-interest bearing demand deposits with a financial institution approved to do business with the City shall be an allowable investment for the City Pool. These types of accounts are necessary to carry on the regular day-to-day financial operations of the City, and are reported as "cash" on the monthly investment reports. When available, the Investment Officer shall execute a "sweep arrangement" with the designated financial institution, to provide for excess overnight balances to earn interest.

(14) Demand Deposits (interest bearing) <i>Per Issuer</i>	20% \$20 million
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Interest-bearing demand deposits with a financial institution approved to do business with the City shall be an allowable investment for the City Pool. These types of accounts generally serve as an alternative to bank certificates of deposit, and have a stated minimum balance requirement. These types of accounts require a separate agreement with the financial institution, and must be fully collateralized as Public Deposits under California law. In addition, some part of the deposit (currently \$250,000) may be insured by the Federal Deposit Insurance Corporation (FDIC) in lieu of collateralization. Deposits (excluding accrued interest) above \$20 million must be approved in advance by the City Manager, and shall be reported at the next scheduled report date to the City Council.

SUMMARY TABLE of INVESTMENT ALLOCATIONS

	<u>STATE LAW</u>	<u>INV POLICY</u>
(1) REPURCHASE AGREEMENTS	NO LIMIT	20%
(2) CALIFORNIA LAIF	NO LIMIT	30%
(3) OTHER GOV'T POOLS Per Issuer	NO LIMIT	30% 10%
(4) MUTUAL FUNDS Per Issuer	20% 10%	20% 10%
(5) CD's Per Issuer	NO LIMIT	10% \$1 Million
(6) NEGOTIABLE CD's Per Issuer	30%	10% \$1 Million
(7) BANKERS ACCEPTANCES Per Issuer	NO LIMIT 30%	10% \$1 Million
(8) U.S. TREASURYS	NO LIMIT	50%
(9) U.S. FEDERAL AGENCIES Per Issuer	NO LIMIT	60% 15%
(10) COMMERCIAL PAPER Per Issuer	25%	25% \$5 Million
(11) COMMERCIAL MTN NOTES Per Issuer	30%	15% \$1 Million
(12) GIC's Per Issuer	NO LIMIT	10% \$5 Million
(13) Demand Deposits (non-interest bearing) Per Issuer	NO LIMIT	0-2% 0-2%
(14) Demand Deposits (interest bearing) Per Issuer	NO LIMIT	20% \$20 Million

The State of California Government Code restricts local agencies from investing in securities with final maturity dates greater than five (5) years, except as specifically authorized by the City Council. This Policy authorizes two specific exceptions to the above restriction.

- (1) The City may invest in up to \$5 million (par value) of securities (at date of purchase) rated AAA or equivalent with maturities of greater than five (5) years, but not exceeding seven (7) years.
- (2) The City's General Contingency Reserve is not a part of normal operating reserves, and the related funds are not expected to be utilized in the foreseeable future, thus, the likelihood of liquidation is very small. The objective(s) of investment in this area are to maximize earnings with safety, while recognizing that liquidity is less of an issue than with operating or capital funds. Consistent with these objectives, the Investment Officer is authorized to invest contingency funds in securities rated AAA or equivalent with maturities greater than seven (7) years that have a ready market should the need arise to liquidate the investment.

The City Council has directed the Investment Officer not to invest in securities of companies involved in the production of tobacco or alcohol related products. The City recognizes that, due to the extreme complexity of today's corporate structures, it is possible that investments may be placed in good faith in corporations that have an interest in tobacco or alcohol related products that is not widely known or properly disclosed by those corporations. The Investment Officer shall make his/her best efforts, including notice to broker/dealers, to assure that any corporate investments are placed with companies who are not in the tobacco or alcohol business. This policy applies at the time of purchase only.

Certain investments are specifically prohibited by the State Code. Local Agencies may not invest in the following: Inverse floating-rate notes, range notes, or mortgage-derived interest-only strips. The Code also states that "A local Agency shall not invest in any security that could result in zero interest accrual if held to maturity." The City's interpretation of this Code section is that it does not prohibit investment in U.S. Treasury or Federal Agency securities which carry a variable rate of interest; because the chance that such notes could result in zero interest accrual to maturity is remote.

IX. Due Diligence Requirements for Investment Pools, Mutual Funds, and CD's

Investments of these types are authorized in **Section VIII.** above. Before investing any funds in pools or mutual funds, the Investment Officer shall perform a thorough investigation of the fund(s) to determine the suitability of the investment for the City of Encinitas Pooled Investment Fund. This investigation shall include, at a minimum: review of the Funds investment policy and/or prospectus, a review of the performance history of the Fund, review of ratings (where applicable), review of the latest published portfolio composition, review of fees and charges, and references from other agencies who invest in the Fund.

The Investment Officer shall monitor placement of Certificates of Deposit with financial institutions on a regular basis. Compliance with collateral requirements shall be monitored (if applicable).

X. Collateralization of Public Deposits

Collateralization will be required on two types of investments: certificates of deposit (which are not fully insured by FDIC) and repurchase agreements. The Finance Director/City Treasurer has agreed to waive collateral requirements on the first \$250,000 of CD's from each institution, which are insured by FDIC. In order to anticipate market changes and provide a level of security for all invested funds, the required collateralization levels will be:

- | | | |
|-----|-------------------------|---|
| (1) | Overnight repurchases | 102% of market value |
| (2) | Certificates of Deposit | 100% of market value |
| (3) | Demand Deposits | in accordance with CA law regarding Public Deposits |

Collateral must be held by an independent third party with whom the entity has a current custodial agreement. Collateral for overnight repurchases (sweep agreements) may be held by the Trust Department of the institution providing such sweep services. Sweep contracts shall provide for a perfected security interest for the City in collateralized securities.

Collateral shall be provided by the issuing institution in accordance and compliance with the California Gov't Code Sections 53630 et al. Issuing institution is responsible for compliance with all collateral requirements, and must provide the City periodic evidence of that compliance, in a form acceptable to the City.

XI. Safekeeping and Custody

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by an independent third-party custodian approved by the City Council. All broker-dealers shall send a transaction confirmation to the Investment Officer, and all security transactions confirmations shall be treated as a "Vital Record" by City personnel and kept safe per the requirements of City policy on Vital Records. Broker-dealers shall also send a monthly activity statement to the City showing all transactions entered into in the period. No City securities or cash will be held by any broker-dealer. The custodian sends a monthly statement to the Investment Officer covering all investment activity handled by that institution.

XII. Diversification

The City will diversify its investments by security type and institution, to avoid incurring unreasonable risks inherent in over-investing in specific instruments or individual financial institutions. This Policy sets limits on maximum allocations by investment type and by issuer. Refer to Section VIII. above for a listing of authorized investments and the maximum allocation by type of investment. Section VIII. also details specific limitations per issuer. For purposes of this Policy, those limits each apply to the overall portfolio.

XIII. Maximum Maturities

To the extent possible, the City of Encinitas will attempt to match its investments with anticipated cash flow requirements, after taking into consideration interest rate (market) risk and the potential benefits of extending investment maturities. The City conforms to the California Gov't Code requirements limiting investments in notes to five (5) years, subject to the exceptions cited in Section VIII. This relates principally to funds classified as reserves, which may be invested in specified instruments with maturities greater than five (5) years. In addition, the City maintains primary and secondary liquidity pools, as described in Section IV. (2) above. Primary liquidity shall be maintained of \$10 million minimum, with secondary liquidity maintained at an additional \$10 million. Primary liquidity above the \$10 million minimum shall count towards the secondary liquidity requirement.

XIV. Internal Control

The Investment Officer shall establish a system of internal controls over all cash management and investment transactions, designed to provide reasonable assurance that assets are safeguarded and that all transactions are properly and timely recorded.

The City's independent auditor shall annually review the system of internal controls and report any deficiencies and/or suggestions for improvements to the Investment Officer and Finance Director/City Treasurer. Any confirmed significant deficiencies shall be reported to the City Manager and City Council in writing, along with the City's response to the audit findings.

XV. Performance Standards:

The City's investment strategy is active, and as such, the organization has determined that periodic quantitative measurement of investment portfolio performance is an important component of the overall monitoring of the investment program. As stated in Section IV(C) above, the performance objective of the Program is attaining a market rate of return over time consistent with the overall risk tolerance of the organization.

The Investment Officer is charged with determining an appropriate **benchmark** by which to measure periodic performance. The chosen **benchmark** shall be designed to match as closely as practicable the City's tolerance for investment risk. Utilization of the benchmark and analysis of actual performance vs. the benchmark represent an important risk management tool, and analysis of significant variations shall be reported to the City Council in a timely manner. At the same time, it is recognized that the benchmark represents a guideline only, and that performance may vary, especially over relatively short time periods. A timeframe of 2-3 years is considered to be the minimum time period necessary for judging overall performance, due to changing market conditions, cash flow requirements and the fact that no chosen performance benchmark will exactly mirror the City's portfolio.

Attaining a market rate of return over time shall be measured and reported to the City Council, at least quarterly, via the utilization of the following benchmark to measure performance.

The one (1) year constant maturity Treasury index

Any change to the above performance benchmark shall be reported to the City Council during the Investment Officer's quarterly investment report.

The Investment Officer shall report performance on a quarterly basis based on the book yield (standard income) approach. Book yield calculates the earnings on an investment based on actual interest earned during any reporting period, including the accretion of purchase discounts and/or the amortization of purchase premiums. The Investment Officer shall also report the estimated market value of investments held (as provided by a third-party data provider) with each periodic report. The City no longer reports investment income on a total return basis each fiscal year (the alternative method presented in Gov't Actg. Standards Board (GASB) Statement No. 31) as the results over time are roughly comparable.

XVI. Investment Accounting and Reporting

The Investment Officer shall prepare (or have prepared) monthly investment reports sufficient to properly track and record all investment transactions and activity. The Investment Officer shall report investment positions and results of the Pooled Investment Fund to the City Council at least quarterly, in a form acceptable to the City Council (currently in a summary fashion.) These reports shall either be presented as an Agenda Report or as a memo report to the City Council members, at the discretion of the City Manager. The Investment Officer shall report positions and results of the Pooled Investment Fund and the Investment of Bond Proceeds annually to the City Council at a Public Meeting. Detailed annual reports of the Pooled Investment Fund shall be made available on the City's WebSite for Public Review.

XVII. Investment Policy Adoption:

The Investment Policy shall be reviewed and adopted by the City Council at a Public Meeting at least annually, regardless of whether there are any proposed changes to the Policy. The Policy shall be posted for public review on the City's WebSite (www.encinitasCA.gov) under City Departments/Finance.

Any typographical errors of other minor errors or inconsistencies shall be investigated and interpreted by the Investment Officer, who shall then seek the concurrence of the Finance Director before making any changes to policies or procedures. Any unresolved matters, which are judged to be insignificant in the overall context of the Policy, shall be presented to the City Manager for a final determination.

ATTACHMENT 4

Investment Update

Investment Update

Fiscal Year 2013-14

This investment update and commentary is intended to be for information purposes only. Any opinions stated herein are not intended to constitute investment advice.

The investing environment for local governmental agencies has not changed significantly in the last 12 months. Available interest rates for the types of investments suitable for local governments have remained relatively stable. For example, utilizing the Agency's *Performance Benchmark* (the one-year US Treasury bill); that rate is 0.10% today compared to 0.15% one year ago. Rates on investments with maturities of over one year and up to five years have increased modestly in the same time period. Thus, some agencies that have a benchmark of more than one year have been able to improve performance year-over-year. However, benchmarking to a longer maturity also increases the risk of market value losses, should interest rates rise as they have in the past year.

Short-term interest rates have been below one-percent (1.00%) for over five years, and now are near zero. This is primarily because of various actions taken by the US Federal Reserve (the "Fed") to lower interest rates, with the intention of stimulating economic activity in the United States. Specifically, the most common measure of US economic activity (Gross Domestic Product, or GDP) went negative in 2008, in what many are now calling the Great Recession. Two consecutive quarters of negative GDP is the common definition of a recession.

The reason that interest rates have been so low for so long is fairly simple. Despite the unprecedented actions of the Fed over the last five years, economic activity has remained quite low by historical standards. For instance, GDP has averaged 2% growth over the last three years, compared to about 5-6% in previous economic recoveries. Quite frankly, the Fed's actions are not having the desired effects. Thus, the Fed has yet to even signal a change in policy, which could take the country back into recession.

This continuing low interest rate policy has had dramatic effects on the earnings of local governmental agencies. These agencies are limited by Law to invest in only the safest investment vehicles, which happen to be the types of investments most affected by low rate policies. Most agencies have seen their interest earnings decline by over 90% in the past five years.

The biggest debate in the investment community has and continues to be: when will the Fed start increasing interest rates? By how much? And how quickly? About the only thing we know for sure is: the Fed will try to raise rates slowly, in small increments. However, market forces also come into play. The Fed cannot SET interest rates, only the Markets can do that. If the markets react strongly to the first indications of a rate hike (a likely scenario) then short-term interest rates could "spike up", out of proportion to the actual Fed announcement or actions. Agencies holding fixed-rate securities with longer maturity dates (say, 3 to 5 years) would see a sharp decline in the market value of those securities. This is what is commonly referred to as "market" or "interest-rate" risk. While the agency may not ultimately incur a loss on any particular security, it may well be necessary to hold the security for its entire term in order to have the total principal returned. Many agencies are uncomfortable taking that type of risk.

While it is important to evaluate what has happened in the financial markets, it is much more important to consider what is likely to happen in the future. That is where forecasting comes into the picture. Investment managers do their best to discern future trends, using the best available information. The objective is to utilize the forecast results to develop an investment strategy, which would typically cover the next year. Once developed, the strategy is implemented and then continuously monitored, to ensure that future market events and conditions are consistent with that strategy. If conditions change, the manager would then evaluate whether any changes are needed to the current strategy.

The forecast as of today is to expect short-term interest rates (one year or less) to rise modestly over the next year, but not necessarily in a straight line. Rates in the one to five year range are likely to increase as well.

Any forecast contains many assumptions. The most important assumption for the next six months to one year involves geo-political risk. If tensions rise between East and West or significant events such as an invasion of Ukraine were to occur, the effect on financial markets would very likely be swift and significant. Rather than rising rates, we would actually see lower interest rates. This is because investors worldwide would be seeking safety for their money, and US Treasury bills are the safest investment in the World. A sharp increase in demand for Treasury bills means higher prices, and thus, lower yields. It is possible that the one-year Treasury bill could actually have a negative yield (meaning that investors would PAY the US Government to keep their money for some period of time.) It has happened in the past, and could occur again.

Given the amount of uncertainty in the current environment, a prudent investment strategy is to hold only the safest investments, maintain a relatively low average maturity (one year or less), and wait to see what trends develop over the next year. This may result in slightly less interest income to the agency, but it lessens the risk of market value losses and the resultant volatility in overall holdings.

One other factor in municipal investing is the changes to money market funds that are being promulgated by the US Securities and Exchange Commission (SEC). Briefly, most money market funds currently have what is known as a Stable Net Asset Value (NAV). This means that the price of the fund is pegged at \$1.00. The \$1.00 NAV applies when you purchase shares in a fund. It also applies when you withdraw money (sell your shares.) The NAV does not change, even if the underlying value of the securities in the fund drops below \$1.00. The change mandated by the SEC will require funds to adopt and apply a Floating NAV. It would also severely restrict the amounts allowed to be invested in Commercial Paper, thus restricting the yield of the Fund. As a result, if an Agency deposits monies in a money market fund, and the NAV drops below \$1.00, the Agency would incur a loss when they elect to withdraw funds (again, sell shares.) Even though the resulting loss would likely be very small, it is still a big change from what investors are accustomed to in these markets.

These changes are just now being implemented. It will take some time to evaluate the effects of these new rules. However, it will likely mean that investors will seek alternative investments to avoid those risks of loss. This trend, in and of itself, could cause the money market funds to experience significant outflows of monies, which would put further pressure on their NAV's. This is an issue that investment managers will be following closely in the coming year.