

TREASURY OVERSIGHT COMMITTEE MEETING

February 18, 2014

MINUTES

Members Present: Don Bouchet, Bill Clark, Edgar Grubb, Jerome Hatfield, Dan Heinrich and Chris Learned.

Also Present: Russell V. Watts, Treasurer-Tax Collector, Brice E. Bins, Chief Deputy Treasurer-Tax Collector, Belinda Zhu, Assistant County Treasurer, and Esther Garibay, Treasurer's Investment Operations Analyst.

Members Absent: Alfred Granzella,

Vice Chair Don Bouchet called the Treasury Oversight Committee meeting to order at 3:04 p.m.

I. PUBLIC COMMENT

None.

II. APPROVAL OF THE NOVEMBER 19, 2013 MINUTES

The Committee made a few minor edits to the minutes.

Mr. Hatfield inquired about the re-appointment of the Committee members whose current terms are ending soon. Mr. Watts responded that this would be discussed later in the meeting.

Mr. Hatfield further inquired about the updates on investments with Wells Cap Management. Ms. Zhu responded that the Treasurer's Office was able to extend the annual management fee of 12 basis points (0.12%) for an additional year. This will allow the Treasurer's Office additional time to evaluate and strategize which direction to take with Wells Cap portfolio.

Mr. Watts asked the Committee if they wanted to continue the existing format of the minutes. The Committee responded positively to ensure a clear understanding of what occurred in the meetings years down the road.

Mr. Bouchet called a motion for approval of the minutes. Mr. Learned moved, seconded by Mr. Heinrich to approve the November 19, 2013 Treasury Oversight Committee meeting minutes. The motion passed unanimously with ayes from Mr. Bouchet, Mr. Clark, Mr. Grubb, Mr. Hatfield, Mr. Heinrich, and Mr. Learned.

III. APPROVAL OF DECEMBER 31, 2013 QUARTERLY REPORT

Ms. Zhu presented the December 31, 2013 Quarterly Investment Report (the Report) to the Committee. The Treasurer's investment portfolio is in compliance with Government Code 53600 et. seq. The Treasurer's investment portfolio is in compliance with the Treasurer's current investment policy. The Treasurer's investment portfolio has no securities lending, reverse repurchase agreements, or derivatives.

As of December 31, 2013, the total par value of the investment pool was \$2,418,959,136.32. The total cost was \$2,424,376,634.17. The market value was \$2,422,402,852.76 which was 99.92% of the cost. More than \$1.28 billion representing about 53% of the portfolio will mature in less than 90 days. The weighted yield to maturity was 0.35%, while the weighted average days to maturity were 165 days. The weighted duration was 0.45 year.

Historical activities combined with future cash flow projections indicate that the County is able to meet its cash flow needs for the next six months.

Ms. Zhu presented Page 2, the Investment Pool Summary Report as of December 31, 2013. The market value of the investment pool was up by \$691 million from the previous quarter end, and up by \$323 million from the same quarter end of last year. About 84% of the portfolio was managed by the Treasurer's Office and the remaining was managed by the external managers.

Ms. Zhu presented Page 3, Investment Pool at a Glance. Mr. Heinrich requested to separate the cash from the N/R (Not Rated) investments for clarity. Ms. Zhu confirmed that the majority of N/R investments is cash but will separate cash from not rated investments in future reports. Mr. Bouchet inquired regarding the large cash balance. Ms. Zhu responded that this is mainly due to the relatively high earnings rate of 0.35% on the collected cash balance with Wells Fargo Bank.

Mr. Heinrich inquired regarding the Portfolio page 20, security #79591-CD CCCCDD Berta Kamm. Mr. Bins responded it was a donation for the Community College's German Music Studies whereas the district was instructed to invest in a Certificate of Deposit and award scholarships based on the interest earnings. Funds were a gift to the Community College.

Ms. Zhu moved to Page 25, Risk Summary of Wells Capital Management Portfolio. The portfolio had a 1.7% allocation in United Kingdom (UK) as opposed to a typical 100% in United States. The portfolio has a \$750,000 investments in an asset backed security issued by UK which was rated AAA by all three rating agencies with maturity on 11/18/17. Ms. Zhu confirmed the security was denominated in US Dollars. Wells Capital Management is in compliance with the applicable California Government Code. Additionally, in CalTRUST's Short Term Fund, the Verizon Communications corporate note maturing on 9/15/16 is rated BBB+ by S&P but is rated A- by Fitch.

CalTRUST takes a liberal interpretation of California Government Code. Therefore, the security is eligible as long as it is rated A or better by one NRSRO.

Mr. Hatfield inquired about the two Public Financial Management (PFM) trades – Investment #81695 CCCSIG CP BTMUFJ and Investment #81696 CCCSIG CP PARFIN. Ms. Zhu responded that she would provide the full names of these two investments to the Committee at its next meeting.

Mr. Heinrich was concerned about the headline risk of UBS securities. Mr. Bins confirmed that he felt comfortable with our short-term money market investments in UBS as they all will mature in a few months. Nonetheless, the Treasurer's Office is monitoring the issue.

Mr. Hatfield asked Ms. Zhu if she felt pressured to invest funds when the Office receives a large inflow of cash. Ms. Zhu responded that the Treasurer's Office has always been taking a cautious and prudent approach in placing investments. We are also anticipating several large outflows for several districts. Coupled with the fact that the market is volatile and unclear, Ms. Zhu does not feel comfortable to lock investments for more than 3 years with current market conditions.

Mr. Bouchet inquired about the earnings on the account balance with Contra Costa Federal Credit Union. Mr. Bins confirmed that there is a zero interest on the balance. These funds are administered by the Public Administrator's Office, where the Credit Union agreed to hold the funds for them at no cost. Other banks would have charged us a fee to administer the program. This program involves several individuals for the Public Administrator's guardian program.

IV. EXHIBITS

Mr. Bouchet inquired regarding Exhibit VII, State of California. Mr. Bouchet requested that "State of California" be added as a heading for all pages corresponding to the State of California in future reports. Ms. Zhu agreed.

Mr. Bouchet inquired whether or not some securities on Exhibit VI should be categorized as derivatives as they are tied to the London Interbank Offered Rate (LIBOR). Ms. Zhu confirmed they are structured notes and not derivatives. These securities are defined as floating rate securities. LIBOR is similar to a benchmark rate. Mr. Bouchet inquired if the rates of these securities go up and down. Ms. Zhu responded positively as LIBOR fluctuates. Mr. Bins further explained that there are a few criteria that define derivatives, and floating or callable securities do not fall under this category. Ms. Zhu stated that common derivatives include options, futures, swaps, etc.

Mr. Bouchet called a motion to approve the December 31, 2013 Quarterly Investment Report. Mr. Heinrich moved, seconded by Mr. Hatfield. The motion passed unanimously with ayes from Mr. Bouchet, Mr. Clark, Mr. Grubb, Mr. Hatfield, Mr. Heinrich, and Mr. Learned.

V. DELEGATION OF INVESTMENT AUTHORITY

Ms. Zhu reported to the Committee that Contra Costa County Board of Supervisors has approved a one-year delegation of investment authority to the County Treasurer.

VI. APPROVAL OF ANNUAL AUDIT

Ms. Zhu requested the Committee to approve an annual audit of Treasury by the Contra Costa County Auditor-Controller for the Calendar Year 2013.

Mr. Bouchet called a motion to approve the Annual Audit. Mr. Learned moved, seconded by Mr. Heinrich. The motion passed unanimously with ayes from Mr. Bouchet, Mr. Clark, Mr. Grubb, Mr. Hatfield, Mr. Heinrich, and Mr. Learned.

VII. AMENDMENT TO THE RALPH M. BROWN ACT

Mr. Watts presented a memo regarding the amendment to the Brown Act effective January 1, 2014. Specifically, the amendment requires detailed public report of individual votes. Therefore, in our minutes, we will reflect each Committee member's vote.

VIII. FORM 700

Ms. Zhu reminded the Committee that the completed 2013 Form 700 shall be submitted to her no later than March 14, 2014.

IX. OTHER:

Ms. Zhu briefly updated the Committee of the Treasurer's Approved Brokers list.

Mr. Watts informed the Committee that the Treasurer's Office and the Auditor/Controller's Office will be temporarily relocating sometime in July to a different location in order to complete major repairs to our current building. The place is to be determined as the County will have to retro-fit the Finance Building to meet our needs and taxpayers' needs. We will keep the Committee informed as to where our next meeting will be held once we have more information.

Mr. Watts stated that three of the current Committee members are up for re-appointment: Mr. Alfred Granzella, Mr. Jerome Hatfield and Mr. Edgar Grubb. At the last Special District meeting, Mr. Granzella was re-elected by the special districts to serve on the board again for another four year term. Mr. Watts invited Mr. Hatfield and Mr. Grubb to serve another term. Both Mr. Hatfield and Mr. Grubb agreed to serve another term.

X. NEXT MEETING: TUESDAY, MAY 20, 2014

Mr. Bouchet adjourned the meeting at 3:58 p.m.

Respectfully submitted,

Esther Garibay
Treasurer's Investment Operations Analyst

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