



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 8/18/2020

ITEM NO: 3

DATE: August 5, 2020
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Fourth Quarter Investment Report (April through June 2020) for Fiscal Year 2019/20.

RECOMMENDATION:

Receive the Fourth Quarter Investment Report (April through June 2020) for Fiscal Year 2019/20.

DISCUSSION:

As of June 30, 2020, the Town's weighted portfolio yield was 1.86% which trended above the Local Agency Investment Fund (LAIF) yield of 1.22%. This favorable yield differential was primarily due to the LAIF portfolio's weighted average maturity (WAM) of 208 days and the Town's longer June 2020 WAM of 608 days. For the fourth quarter, the Town's weighted average rate of return decreased by 4 basis points (0.04%) from 1.90% to 1.86%.

In the months prior to the COVID-19 outbreak, staff in consultation with the Town's investment advisor had been extending maturities to capture higher yields currently associated with longer dated securities. In recent months, the economic fallout associated with the pandemic has led to Treasury yields falling dramatically. For example, on June 30, 2020 ten-year US Treasury notes were yielding 0.66% versus 2.04% on June 30, 2019.

During the fourth quarter, staff in coordination with the Town's investment advisor started investing most maturing investments into the State LAIF pool to capture the higher short-term yields. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing. However, with LAIF's WAM of 208 days staff is expecting a steady decline in LAIF portfolio yields until the LAIF portfolio reflects the low short-term investment yields available in the market.

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

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For the quarter ending June 30, 2020, the US recorded an unprecedented drop in Gross Domestic Product (GDP) of minus 32.9%. This reduction was reported as the largest percentage reduction since records began in 1947.

The Federal Reserve (Fed) met in July and affirmed its support of the economy by extending its new and unprecedented loan programs and maintaining interest rates at near zero. Fed Chairman Jerome Powell stated the Fed is “not even thinking about thinking...about raising interest rates.” For now, with historical low yields across the yield curve, staff expects to maintain shorter maturity lengths until economic indicators translate into a gradual rise in interest rates.

CONCLUSION:

Staff recommends that the Town Council receive the Fourth Quarter Investment Report (April through June 2020) for Fiscal Year 2019/20.

Attachment:

1. Fourth Quarter Investment Report for FY 2019/20 (April through June 2020)