



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 5/19/2020

ITEM NO: 2

DATE: May 14, 2020
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Third Quarter Investment Report (January through March 2020) for Fiscal Year 2019/20.

RECOMMENDATION:

Receive the Third Quarter Investment Report (January through March 2020) for Fiscal Year 2019/20.

DISCUSSION:

As of March 31, 2020, the Town's weighted portfolio yield was 1.90% which trended above the Local Agency Investment Fund (LAIF) yield of 1.79%. This favorable yield differential was primarily due to the LAIF portfolio's weighted average maturity (WAM) of 208 days and the Town's longer WAM of 656 days. In recent 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. Staff continues to replace matured or called investments with similar investments with respect to maturity and credit quality. For the third quarter, the Town's weighted average rate of return decreased by 3 basis points (0.03%) from 1.93% to 1.90%.

During the quarter ending March 31, 2020 the coronavirus crisis escalated and significantly impacted the United States. Shelter-in-place measures implemented nationally and internationally significantly restricted commerce resulting in mass business closures and layoffs. United States jobless claims surged to unprecedented levels approaching that of the Great Depression. In response, the Federal Reserve (the Fed) enacted an emergency 50 basis point rate cut early in March, and later followed with a 100 basis point cut, bringing the Federal Funds rate to a range of (0 to minus .025%). In addition to lowering the Fed Funds rate, the Fed also initiated reductions in reserve requirements and quantitative easing through asset purchases. As of the month ending March 31, 2020, interest rates on the ten-year US Treasury bond investments had fallen to a yield of 0.67%.

PREPARED BY: Stephen Conway
Finance Director

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

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DISCUSSION(continued):

In light of the COVID-19 crisis and its impact on the markets and interest rates, staff's strategy is to extend maturity lengths on new purchases of securities to take advantage of higher yielding securities in the two to three year maturity range, capturing medium term rates until further impacts to the national economy become known.

CONCLUSION:

Staff recommends that the Town Council receive the Third Quarter Investment Report (January through March 2020) for Fiscal Year 2019/20.

Attachment:

1. Third Quarter Investment Report for FY 2019/20 (January through March 2020)