

TREASURY OVERSIGHT COMMITTEE MEETING

November 19, 2013

MINUTES

Members Present: Don Bouchet, Alfred Granzella, 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: Bill Clark

Chairperson Alfred Granzella called the Treasury Oversight Committee meeting to order at 3:00 p.m.

I. PUBLIC COMMENT

None.

II. APPROVAL OF THE AUGUST 20, 2013 MINUTES

The Committee made one minor edit to the minutes.

Mr. Hatfield followed up on the status of the Wells Cap Management meeting. Ms. Zhu reported that she, Mr. Watts, and Mr. Bins conducted an onsite due diligence visit to the firm's San Francisco offices on August 27th, 2013. The three first met with Michael Rogers, Managing Director, who presented an overview of the firm. Afterward, two portfolio managers, Jeff Weaver and Tony Melville, joined the meeting and introduced the analysts and traders on their staff. Later, Matt Grenselgrem, the head of the Credit Research Team in Minnesota presented the credit research process via a conference call. Lastly, the compliance division, operations/client administration and other back office staff introduced themselves via a conference call.

During the due diligence visit, Wells Cap demonstrated its stable organization, experienced investment team, and well-controlled risk management process. Regarding the portfolio construction, Wells Cap proposed a strategy that would include national municipals in addition to California municipals, and require only one rating agency to rate Corporate Notes or Asset Back Securities single "A" for them to be allowed for purchase. As a result, the proposed strategy would increase allocation of funds to agencies, municipals, and asset backed securities while reducing cash and treasuries. The proposed portfolio would be in compliance with the guidelines and restrictions set forth in the County Treasurer's Investment Policy and the California Government Code. The recommended strategy would increase the yield by 80% and maintain an overall rating of AA-.

The Treasurer's Office has held off on accepting the proposed strategy for the following reasons: 1) the strategy is similar to CalTRUST Short-Term Fund which is also managed by Wells Cap, and had approximately \$68 million assets from the county treasury pool as of 9/30/13. From an investment diversification point of view, it would not be prudent to have two similar strategies in our treasury pool. 2) As discussed before, it would be better for the satellite portfolios complement each other when considering the county treasury pool as the core.

Currently, the Wells Cap and CalTRUST portfolios are managed by Wells Cap Management. For manager diversification purposes, we should consider making changes to our current manager structure. However, there are more issues to consider before we make a strategic movement. On one hand, we have negotiated a low flat fee of 12 bps with Wells Cap while CalTRUST short-term fund has a management fee of 14 bps. On the other hand, CalTRUST provides better liquidity as the funds have more than \$600 million in assets under management. We can redeem funds with a 24-hour prior notice without negatively impacting the portfolio. Mr. Bins added that Wells Cap Portfolio also works as a compensating balance account where the interest earnings are used to offset the monthly treasury banking service fees charged by Wells Fargo Bank.

Mr. Hatfield suggested that we monitor the overall rating of the Wells Cap portfolio if we decide to accept Wells Cap's proposed portfolio structure and change the mandate accordingly. Ms. Zhu recognized his concern and assured that we have not made a decision, and probably will not make a decision to go with Wells Cap's proposed strategy in the future. Ms. Zhu added that the newly negotiated Wells Cap management fees won't expire until 2014. Once the current contract expires, we could re-negotiate fees or make a change to our existing manager structure.

Mr. Granzella called a motion for approval of the minutes. Mr. Hatfield moved, seconded by Mr. Bouchet to approve the August 20, 2013 Treasury Oversight Committee meeting minutes. The motion passed unanimously with ayes from Mr. Bouchet, Mr. Granzella, Mr. Grubb, Mr. Hatfield, Mr. Heinrich and Mr. Learned. Mr. Clark was absent.

III. APPROVAL OF SEPTEMBER 30, 2013 QUARTERLY REPORT

Ms. Zhu presented the September 30, 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 September 30, 2013, the total par value of the investment pool was \$1,727,383,941.39. The total cost was \$1,733,518,477.65. The market value was \$1,731,879,007.65 which was 99.91% of the cost. More than \$1.23 billion

representing about 71% of the portfolio will mature in less than 90 days. The weighted yield to maturity was 0.41%, while the weighted average days to maturity were 206 days. The weighted duration was 0.56 year.

Ms. Zhu presented Page 2, the Investment Pool Summary Report as of September 30, 2013. The market value of the investment pool was down by \$382 million from the previous quarter end but up by \$82 million from the same quarter end of last year. Historically speaking, the first quarter of the fiscal year usually has the lowest balance due to less revenue but higher expenditures, including the annual retirement pre-payment, regular debt service payments, and the annual pension obligation payment. Reasons for a large cash balance were 1) temporary discontinuance of REPO investments due to less than-two bps of a percent in interest; and 2) 35 bps earned on the collected cash balance with Wells Fargo. At the end of the quarter, roughly 82% of the portfolio was managed by the Treasurer's Office and the remaining was managed by the outside contractors.

Ms. Zhu moved to section III which includes a detailed statement for each portfolio managed by the Treasurer's office and external managers.

A change was made to page 18 after distribution of the meeting package. Investment number 81535 CCCSIG Corp GECC Floater should have been categorized as a separate floater security (Category Corporate Floater - ICC Code 73). The change was made in the Treasurer's Sungard system. Referring to the bottom of the same page (18) Mr. Heinrich questioned why we invested in tax-exempt money market funds given we are tax-exempt entity. Ms. Zhu explained that these investments were originally from Acalanes Union High School District (AUHSD) and were transferred to the Treasurer's Office. Mr. Bouchet added that AUHSD's bond document requires interest from the investments of bond proceeds to be parked in tax-exempt municipal money market funds. Mr. Learned confirmed that this is the requirement.

Ms. Zhu moved on to the LAIF Statement on page 21. As of 9/30/13, the balance of LAIF account increased by \$7.4 million compared to the previous quarter largely due to the \$23 million deposit from Antioch USD. The largest withdrawal was made by Central Sanitary District in the amount of \$13 million. In the previous TOC meeting, the Committee asked why the LAIF balance had decreased and if it were due to the low yield. Ms. Zhu stated the main reason is the districts withdraw their LAIF funds periodically for payments of different projects. Mr. Bins further explained that the surplus funds are slowly diminishing; therefore, the districts need to withdraw funds for operating expenses.

IV. EXHIBITS

As there were no changes to the format of most Exhibits, and because the portfolio fluctuates only slightly from quarter to quarter, Ms. Zhu reviewed only those Exhibits that had exceptions.

Mr. Granzella called a motion to approve the September 30, 2013 Quarterly Investment Report. Mr. Grubb moved, seconded by Mr. Heinrich. The motion passed unanimously with ayes from Mr. Bouchet, Mr. Granzalla, Mr. Grubb, Mr. Hatfield, Mr. Heinrich and Mr. Learned. Mr. Clark was absent.

V. STANDARD & POOR'S RATING

Ms. Zhu briefly reported the September 30, 2013 S&P ratings and confirmed that S&P had again rated the Contra Costa County Investment Pool with AAf / S1+. In essence, the Pool portfolio holdings provide extremely strong protection against losses from default with extremely low sensitivity toward changing market conditions.

VI. APPROVAL OF CONTRA COSTA COUNTY TREASURY OVERSIGHT COMMITTEE BYLAWS

Ms. Zhu presented the revised Treasury Oversight Committee Bylaws to the Committee. Two duties of the TOC Committee were added to the Bylaws in addition to a few minor grammatical changes. Mr. Hatfield requested that the bylaws be reviewed annually. Ms. Zhu suggested that the review be conducted at the same time the Committee reviews the Investment Policy to ensure the Bylaws would not be overlooked.

Mr. Granzella called a motion to approve the Contra Costa County Oversight Committee Bylaws. Mr. Grubb moved, seconded by Mr. Heinrich. The motion passed unanimously with ayes from Mr. Bouchet, Mr. Granzalla, Mr. Grubb, Mr. Hatfield, Mr. Heinrich and Mr. Learned. Mr. Clark was absent.

VII. OTHER:

Ms. Zhu noted that the Committee will hold its 2014 quarterly meetings on February 18, May 20, August 19, and November 18. Additionally, the meeting room has been changed to Conference Room B001 for future meetings.

VIII. NEXT MEETING: **FEBRUARY 18, 2014**

Mr. Granzella adjourned the meeting at 3:46 p.m.

Respectfully submitted,

Esther Garibay
Treasurer's Investment Operations Analyst
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