



## **CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT**

Agenda Item No. 5A  
September 15, 2022

**TO:** HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Scott Catlett, Finance Director/Treasurer  
949-644-3123, [scatlett@newportbeachca.gov](mailto:scatlett@newportbeachca.gov)

**SUBJECT: ANNUAL REVIEW OF INVESTMENT PERFORMANCE**

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### **SUMMARY:**

As guided by the City's investment policy objectives, the City strives to maintain a portfolio emphasizing safety and liquidity while earning a market rate of return commensurate with the City's risk tolerance and investment restrictions imposed by the California Government Code. The City has complied with all the limiting parameters of both the California Government Code and the City's Investment Policy Statement while earning a rate of return comparable to the City's established benchmarks.

### **RECOMMENDED ACTION:**

Receive and file.

### **DISCUSSION:**

The City's strategy continues to focus on identifying value from high quality, marketable securities among the full range of investment options, ensuring the portfolio continues to be well diversified. The City's investment portfolio contains investments that are pooled assets of the City of Newport Beach, which includes the General Fund, special revenue funds, internal service funds, enterprise funds (e.g., water and wastewater), and various other funds.

The City uses several accounts and carve-out portfolios to accomplish its investment objectives. For liquidity, the City uses a combination of demand deposit accounts (DDAs), the Local Agency Investment Fund (LAIF), and a targeted-maturities portfolio to provide sufficient liquidity to meet its day-to-day cash flows. Municipal deposits in DDAs are 110 percent collateralized by bank assets, and the City receives a compensating balance

credit that can only be used to offset banking fees but does not produce income beyond bank fees. Funds needed to meet specific cash flows that can be invested at a rate higher than LAIF are accounted for in our targeted-maturities portfolio.

The remainder of the City's funds are actively managed in accordance with the California Government Code and the City's investment policy by Chandler Asset Management (Chandler). The investments are held by a custody bank and are registered in the City's name. The City accounts for and monitors the portfolio independently of Chandler by a direct feed from the custody bank and the use of third-party analytical software.

"Total return" is the accepted industry standard measure for comparing portfolio performance to established benchmarks. Total return benchmarks provide valuable information to those charged with governance of the investment portfolio by:

- Communicating a transparent risk profile and related investment strategy;
- Managing expectations of risk and return; and
- Providing relative variances that can be used to identify decisions made regarding portfolio durations, sector weighting, credit quality and maturity structure.

The City uses total return to measure performance and risk against its benchmarks. Total return is made up of both income return and unrealized gains and losses due to changing interest rate environments. The market value of bonds moves inversely to the direction of interest rates. As interest rates increase, the market value of bonds held in the portfolio decreases because they are paying a lower interest rate than comparable bonds in the market. While total return is useful for benchmarking, generally, the City's securities are held to maturity, making income return a better indicator of the City's cash flows from these securities. The City seeks higher income returns within the core portfolio whenever possible by avoiding selling securities before maturity due to liquidity needs. This is accomplished by holding sufficient liquid assets outside the core portfolio, primarily in LAIF, to meet these needs. Price risk from the core portfolio is mitigated by generally holding securities to maturity. Liquidity risk from the core portfolio is managed by holding liquid assets outside of the core portfolio. Price risk from the core portfolio is managed by generally holding securities to maturity.

Representatives from Chandler Asset Management will make a presentation to the Finance Committee discussing investment performance for the Chandler-managed portfolio for the fiscal year ending June 30, 2022.

Prepared and Submitted by:

/s/ Scott Catlett

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Scott Catlett  
Finance Director/Treasurer