

CITY OF LA CAÑADA FLINTRIDGE

INVESTMENT AND FINANCING ADVISORY COMMITTEE Meeting of Friday, January 21th, 2011

Minutes

Call to Order

The meeting was convened at 7:32 AM at City Hall

Roll Call

IFAC Members Present: Kevin Tom, James Poindexter, Gene Stein, Jeff Wang, Keith Ban, Dave Hemstreet

Also Present: Dan Jordan, Director of Finance

Review of Minutes of October 20th, 2010 Meeting

The October 20, 2010 meeting minutes were moved for approval by Dave Hemstreet and seconded by Gene Stein

Investment Policy Discussion

City Treasurer Jeff Wang began the discussion by reminding IFAC members of question posed in the previous IFAC meeting with regard to the City's Investment Policy Guidelines ("Guidelines") – specifically, whether the Guidelines should be amended to include some form of "sell trigger" for securities that fall below a certain credit rating. Mr. Wang indicated that his preference would be to add some form of "trigger" language to the Guidelines, but that any such trigger not be "mechanical" but instead preserve adequate flexibility for the City Treasurer when confronting a credit downgrade. As an example, Mr. Wang noted that the Guidelines could be altered to provide that a ratings downgrade of a certain magnitude would require that the City Treasurer place the matter on the next IFAC meeting agenda, as well as part of the subsequent Monthly Financial Report presented to the City Council.

IFAC member James Poindexter asked whether the City Treasurer would always have the time to get input from the IFAC and City Council on a downgrade if action (e.g., selling the downgraded security) was required quickly. Mr. Wang noted his desire that any such trigger should preserve adequate flexibility for the City Treasurer to exercise discretion on a case-by-case basis.

City Audit Update

City Finance Director Dan Jordan provided the IFAC with an update on the status of the audit of the Fiscal Year 2009-10 financial statements. Mr. Jordan noted that while the audit was largely complete, release of the FY 2009-10 financial statements had been delayed due to unplanned absences of key personnel within the firm conducting the audit.

Investment Portfolio Review and Near Term Portfolio Management

The discussion then moved to the City's investment portfolio. Jeff Wang stated that the very low interest rate environment continued, and that he had for the first time purchased a security with a yield less than 2 percent. Mr. Wang also noted that if interest rates did not begin to increase in the near future, all of the securities in the City's portfolio with yields exceeding 4 percent would be gone by June, 2012.

Several IFAC members provided input on considerations for potential additions and/or modifications to the City's portfolio. IFAC member Kevin Tom asked whether Treasury Inflation-Protected Securities ("TIPS") had ever been considered for the portfolio, while IFAC member Gene Stein inquired about yields available on financial sector bonds. In addition, IFAC member Keith Ban asked about the City portfolio's overall exposure to Fannie Mae and Freddie Mac securities. In response, Mr. Wang noted that he was continuing his efforts to diversify the City's securities holdings and discussing all available options with the City's financial advisor. This led to a general discussion among the IFAC on the risk/return characteristics of various classes of securities currently available in the marketplace.

Outlook for Interest Rates and Economy

IFAC member Dave Hemstreet began the group's discussion about the current condition and future prospects for both the economy and interest rates. Mr. Hemstreet stated that it appeared the economy overall was beginning to improve, although he noted that the increase in economic activity was being accompanied by a rise in global inflation. This rise in global prices, together with a weak dollar, was likely to result in higher interest rates over time. Mr. Hemstreet also stated that an "x-factor" for the U.S. economy going forward was the extent to which any U.S. banks had exposure to Europe, and whether such exposure could precipitate another crisis within the banking sector.

IFAC member Gene Stein continued the discussion of the U.S. economy by noting that corporations, as a class, were maintaining record-level cash balances, and that an increase in business investment (both on capital spending and on hiring) was perhaps in the near-future (either this year or in 2012). The potential increase in business investment, together with another round of federal government fiscal stimulus through the reduction in employee Social Security contributions, boded well for future economic growth, but Mr. Stein concluded by noting that the

financial nature of the recent recession made it difficult to predict the pace with which economic activity would increase over the coming year.

Other IFAC members gave their impressions of the likely trajectory of near-term economic growth. IFAC member Kevin Tom stated that overall, the U.S. economy appeared to be on “an uneven road to a shaky recovery”, with various economic indicators and industry sectors moving in different directions. This tone of caution about future economic growth was echoed by IFAC members Keith Ban and James Poindexter. Mr. Poindexter noted that most demand he was seeing in his industry was the result of government-sponsored projects, with Mr. Ban indicated that, while the economy was appearing to improve, unemployment remained high and lending standards remained tight.

Other Matters

No other matters were discussed

Adjournment

There being no further business, the meeting was adjourned at 8:53 AM.