



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 02/14/2022

ITEM NO: 2

DATE: February 8, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22

RECOMMENDATION:

Receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22.

DISCUSSION:

As of December 31, 2021, the Town's weighted portfolio yield was 1.20% which trended approximately 100 basis points above the Local Agency Investment Fund (LAIF) yield of 0.21%. This favorable yield differential to LAIF was primarily due to the LAIF portfolio's lower weighted average maturity (WAM) of 338 days versus the Town's longer WAM of 471 days. The Town's weighted average rate of return of 1.20% at the close of the second quarter was 42 basis points lower when compared to the second quarter return of 1.62% in 2020.

In the second quarter of this fiscal year 2021/22, LAIF yields hovered at approximately 20 basis points (0.2%) through the end of the December. Staff in coordination with the Town's investment advisor primarily replaced maturing investments in shorter term maturities in the two- to three-year maturity range. These investments capture current yields that exceed the rates expected to be earned in the State Local Agency Investment Fund (LAIF) pool during that same time period. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

Interest rates rose across the board in the month of December, especially in the short term maturity range of six months to two years. The rise in short term rates was likely driven by the

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Finance Director

Reviewed by: Town Manager and Assistant Town Manager

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DISCUSSION (continued)

expectation that the Federal Reserve will start increasing its short-term Federal Funds rate sometime in 2022 or 2023. At its December Board meeting, the Fed signaled it would taper its asset purchase program more swiftly than previously reported. In addition, polling of individual Fed members indicate the possibility of three rate hikes during calendar year 2022.

CONCLUSION:

Staff recommends that the Finance Commission receive the Second Quarter Investment Report (October through December 2021) for Fiscal Year 2021/22.

Attachment:

1. Second Quarter Investment Report for FY 2021/22 (October through December 2021)