



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE:11/8/2021

ITEM NO: 2

DATE: November 3, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the First Quarter Investment Report (July through September 2021) for Fiscal Year 2021/22.

RECOMMENDATION:

Receive the First Quarter Investment Report (July through September 2021) for Fiscal Year 2021/22

DISCUSSION:

As of September 30, 2021, the Town's weighted portfolio yield was 1.27% which trended 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 321 days versus the Town's longer WAM of 519 days. The Town's weighted average rate of return of 1.27% at the close of the first quarter was 59 basis points lower when compared to the first quarter return of 1.86% in 2020.

In the Fourth quarter, LAIF yields continued their steady decline each month for the year. 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.

At the conclusion of their November meeting, the Federal Reserve (Fed) announced a slowing (referred to by the Fed as a "taper") of its policy of buying back US Treasuries and agencies, stating "moderation in the pace of asset purchase may soon be warranted". In addition, the Fed left the target range for the federal funds rate at zero to ¼ percent. The Fed raised its inflation forecast from 3.4% to 4.2% for 2021 and from 2.1% to 2.2% for 2022, and above its 2%

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager and Assistant Town Manager

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DISCUSSION (continued):

target through 2024. Nonetheless, the Fed Committee's 'dot plot' still reflected a majority expectation of no rate hikes until 2023.

CONCLUSION:

Staff recommends that the Finance Commission receive the First Quarter Investment Report (July through September 2021) for Fiscal Year 2021/22.

Attachment:

1. First Quarter Investment Report for FY 2021/22 (July through September 2021)