



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 2/16/2021

ITEM NO: 5

DATE: February 10, 2021
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Second Quarter Investment Report (October through December 2020) for Fiscal Year 2020/21.

RECOMMENDATION:

Receive the Second Quarter Investment Report (October through December 2020) for Fiscal Year 2020/21.

DISCUSSION:

As of December 31, 2020, the Town's weighted portfolio yield was 1.62% which trended above the Local Agency Investment Fund (LAIF) yield of 0.62%. This favorable yield differential was primarily due to the LAIF portfolio's weighted average maturity (WAM) of 169 days and the Town's longer WAM of 579 days. The Town's weighted average rate of return of 1.62% for the second quarter remained relatively stable when compared to the second quarter return of 1.93% in 2020.

In the months prior to the COVID-19 outbreak, staff in consultation with the Town's investment advisor had been extending maturities to capture higher yields associated with longer dated securities. In recent months, the economic fallout associated with the pandemic has led to Treasury yields falling dramatically. For example, on December 31, 2020, ten-year US Treasury notes were yielding 0.92% versus 1.69% on December 31, 2020.

During the second quarter, staff in coordination with the Town's investment advisor started investing most maturing investments into the State Local Agency Investment Fund (LAIF) pool to capture the higher short-term yields. The current LAIF yield of 0.62% is almost double that of the five-year US Treasury yield of 0.36%. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing. However, with LAIF's WAM of 165 days, staff is expecting a continuing steady decline in LAIF portfolio yields until the LAIF portfolio reflects the low short-term investment yields available in the market.

PREPARED BY: Stephen Conway
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

PAGE 2 OF 2

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DISCUSSION (continued):

The Federal Reserve (Fed) confirmed no change to its policy until late 2023. The Fed said it is committed to keeping the target range for the federal funds rate at 0% to 0.25% until “labor market conditions have reached levels consistent with the Committee's assessment of maximum employment. The Fed’s quarterly economic forecasts improved slightly with unemployment expected to fall to 5% in 2021 compared to the Fed’s previous estimate of 5.5% and a gross domestic product (GDP) forecast of 4.2%, which if achieved would mean a recovery in GDP beyond the pre-pandemic levels.

CONCLUSION:

Staff recommends that the Town Council receive the Second Quarter Investment Report (October through December 2020) for Fiscal Year 2020/21. This will also be provided to the Finance Commission.

Attachment:

1. Second Quarter Investment Report for FY 2020/21 (October through December 2020)