CITY OF STANWOOD
FINANCE COMMITTEE
AGENDA STAFF REPORT

SUBJECT: Investments Update	**FOR AGENDA OF: September 26, 2013** **DEPARTMENT OF ORIGIN: Finance**
ATTACHMENT(S): **Attachment A – Public Funds Investing Presentation by Paul Jarvis and Peter Becker of Time Value Investments (TVI)** **Attachment B – August 26, 2013 email from Paul Jarvis, TVI**	**DATE SUBMITTED: September 12, 2013** **CLEARANCES:** (check box) ☐ City Attorney _____ ☐City Clerk/HR _____ ☐Community Development _____ ☐Fire _____ ☐Finance _____ ☐Police _____ ☐ Public Works _____ **APPROVED FOR SUBMITTAL BY THE CITY ADMINISTRATOR:**_____
COST OF PROPOSAL: N/A	**AMOUNT BUDGETED: N/A**

ISSUE

Should the city continue to take advantage of increased interest rates in the 2-4 year range due to the Federal Reserve policy that has resulted in a steeper yield curve?

SUMMARY STATEMENT

For the last five years, due to the recession and resulting "easy money" policy of the Federal Reserve, interest rates have been at historic lows for quite some time. Presented below is a current summary of the City's current investment portfolio as of September 26, 2013:

Table 1 – Sorted by Maturity

Description	Investment No.	Maturity	Rate	Par	Mos Left If Called
Federal National Mortgage Assn (FNMA)	313586QR3	7/5/2014	1.150%	$ 1,000,000.00	10
Federal Home Loan Bank (FHLB)	313463QW3	3/6/2015	0.625%	$ 1,000,000.00	6
Federal National Mortgage Assn (FNMA)	3135GORY1	11/25/2014	0.480%	$ 1,000,000.00	14
Federal Farm Credit Bank (FFCB)	3133EAJ33	8/15/2016	0.730%	$ 1,000,000.00	0
Federal Farm Credit Bank (FFCB)	3133EC5B6	11/29/2016	0.640%	$ 1,000,000.00	2
Federal National Mortgage Assn (FNMA)	3136G1SP5	2/28/2017	1.125%	$ 1,000,000.00	5
Total				$ 6,000,000.00	

Table 1 – Sorted by Call

Description	Investment No.	Maturity	Rate	Par	Mos Left If Called
Federal Farm Credit Bank (FFCB)	3133EAJ33	8/15/2016	0.730%	$ 1,000,000.00	0
Federal Farm Credit Bank (FFCB)	3133EC5B6	11/29/2016	0.640%	$ 1,000,000.00	2
Federal National Mortgage Assn (FNMA)	3136G1SP5	2/28/2017	1.125%	$ 1,000,000.00	5
Federal Home Loan Bank (FHLB)	313463QW3	3/6/2015	0.625%	$ 1,000,000.00	6
Federal National Mortgage Assn (FNMA)	313586QR3	7/5/2014	1.150%	$ 1,000,000.00	10
Federal National Mortgage Assn (FNMA)	3135G0RY1	11/25/2014	0.480%	$ 1,000,000.00	14
Total				$ 6,000,000.00	

Weighted Maturity Assuming None Called	23.67 Months	(2 years)
Weighted Maturity Assuming All (Callable) Called	6.17 Months	(0.5 years)

Paul Jarvis, who is the city's investment advisor, recently gave a presentation to the Snohomish County Clerks and Finance Officers Association (Attachment A). The gist of Mr. Jarvis' presentation was that, he believes that, based on statements by Federal Reserve (Fed) Chairman, Ben Bernanke, "the Committee...anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015."

On May 22, 2013, Benanke mentioned the potential of decreasing (tapering) the monthly purchase of US Treasury 10 year notes. The net effect of all this, in Mr. Jarvis' opinion, is that short term interest rates (0-2 years) should stay at record lows for the next couple of years, barring some unforeseen circumstance. Meanwhile, intermediate term rates (2-5 years) have shot up in response in anticipation of the Fed tapering its purchases of 10 year notes.

What this means in the near term is that the city should have more opportunities to increase investment yields, Recently, in anticipating of a FNMA bond that was called on 9/12/2013, the city purchased another FNMA bond with a 3 ½ year maturity (Bond 1 on Attachment B), callable on 02/28/2014. The yield to maturity is 1.17%, and the yield to call is 1.435%.

With the Local Government Investment Pool (LGIP) earning just 0.1%, this means that this investment will earn nearly 12 times the LGIP rate if it does not get called, and 14 times the LGIP rate if it does get called on 02/28/2014.

RECOMMENDATION

None. For discussion purposes and to keep the Finance Committee up to date on current investment conditions and activities. With the Finance Committees consent, staff will continue to work with the city's investment advisors at Time Value Investments seek out safe, yet higher yielding bonds similar to the one just recently purchased.

PUBLIC FUNDS INVESTING

Prepared for:

Snohomish County Clerks and Finance Officers Association

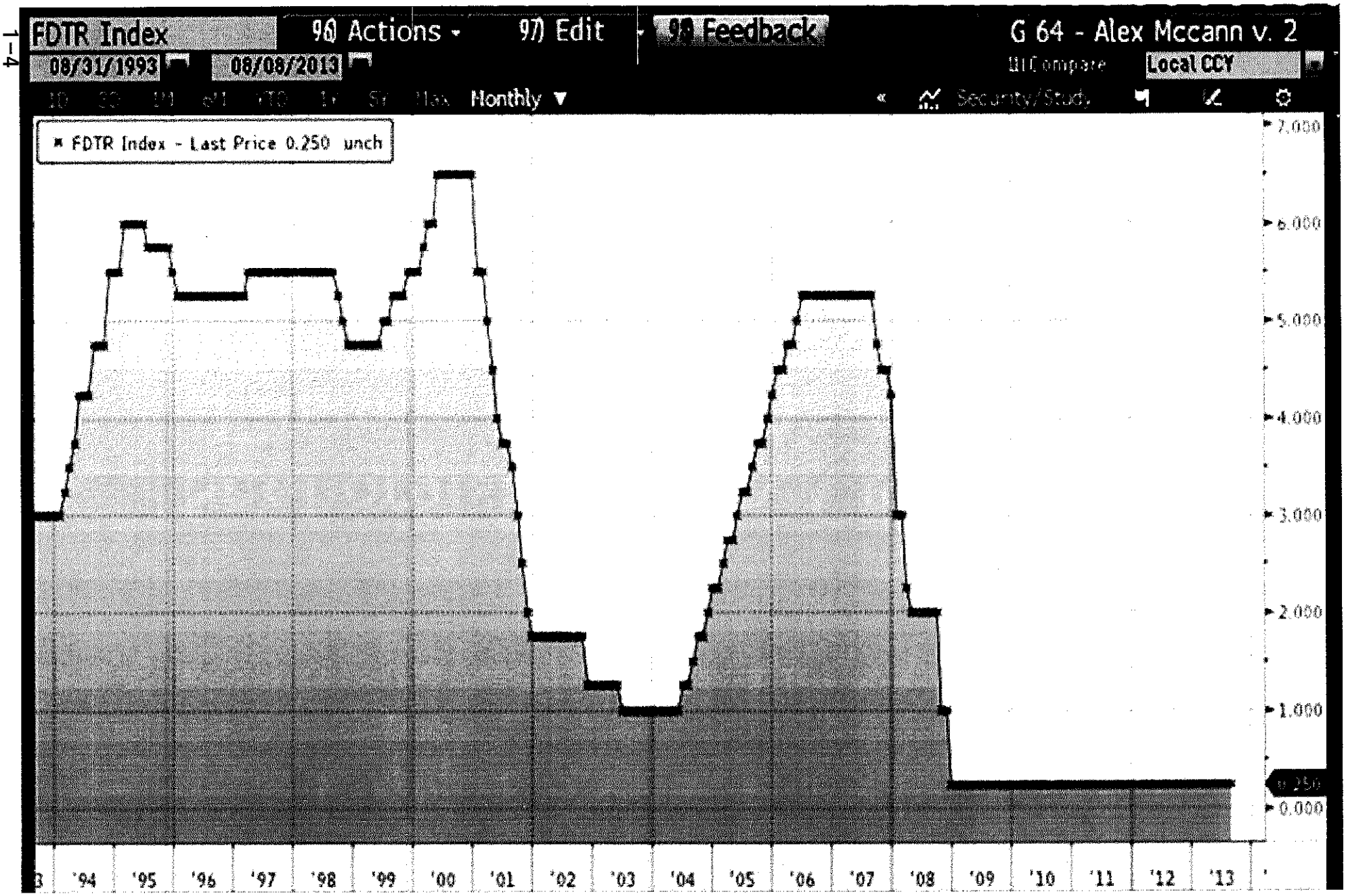
Presented by:

Paul Jarvis and Peter Becker
paul.Jarvis@timevalueinv.com peter.becker@timevalueinv.com
206-365-3000 or 1-877-707-7787

TVI TIME VALUE INVESTMENTS®

Member SIPC and FINRA.

Attachment A



Source: Bloomberg

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Ben Bernanke's Statement (9/13/12) and was repeated word for word on 10/24/12:

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Press Release

Release Date: September 13, 2012

For immediate release

The Committee....anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

On December 12, 2012 Bernanke said the following: "The Committee views these thresholds [viz. 6.5% unemployment, etc.] as consistent with its earlier date-based guidance" [viz. "at least through mid-2015," above].

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BOND BASICS - A TYPICAL BOND

04/15/13	Coupon	Interest	Payments	Yield	Maturity
$1,000,000	1.00%	$5,000	10/15/13		04/15/15
		$5,000	04/15/14		
		$5,000	10/15/14		
		$5,000	04/15/15	1.00%	$1,000,000

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BOND BASICS - A TYPICAL BOND

04/15/13	Coupon	Interest	Payments	Yield	Maturity
$980,000	1.00%	$5,000	10/15/13		04/15/15
		$5,000	04/15/14		
		$5,000	10/15/14		
		$5,000	04/15/15	2.00%	$1,000,000

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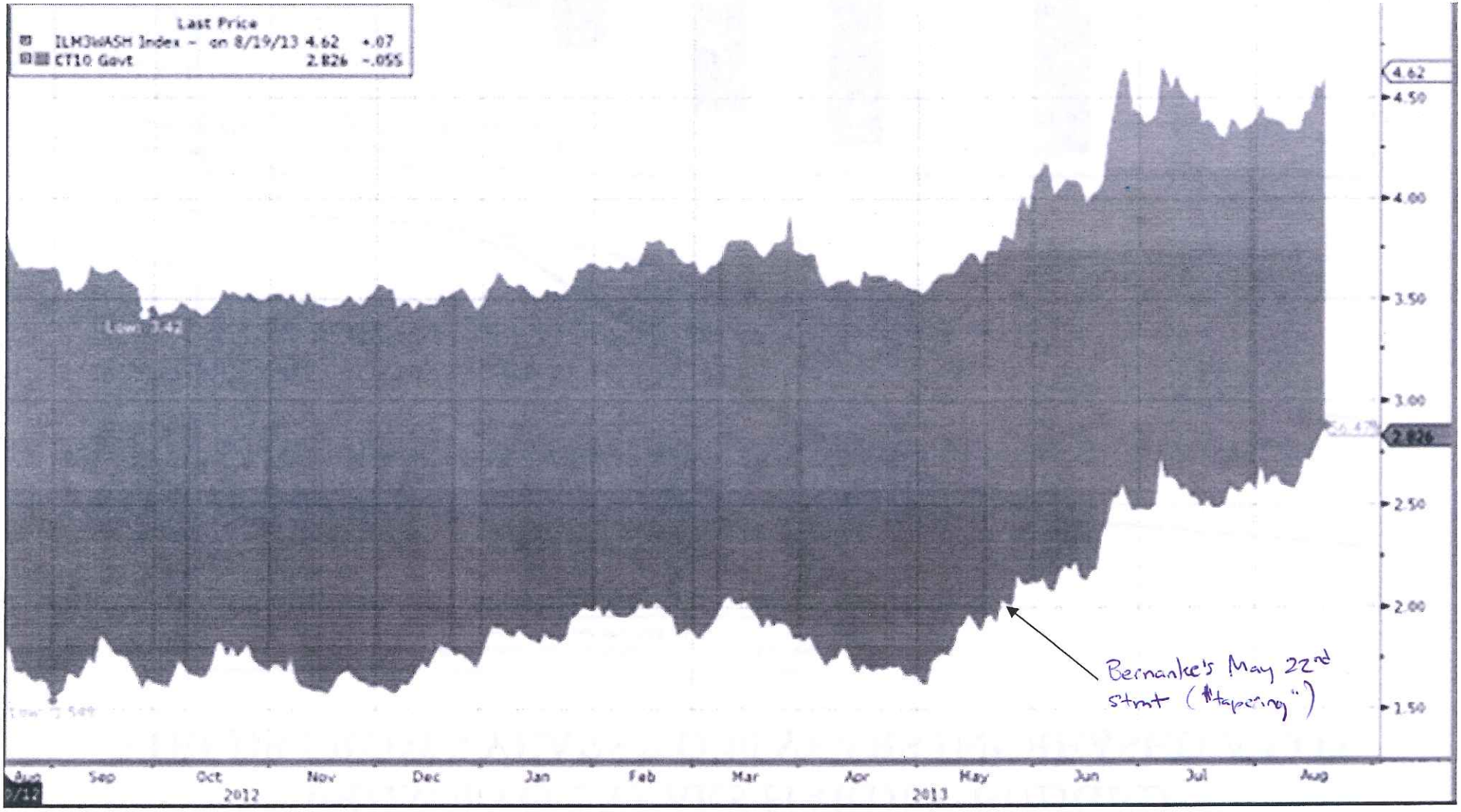
ON MAY 22, 2013, BERNANKE MENTIONED THE POTENTIAL OF DECREASING (TAPERING) THE MONTHLY $85 BILLION PURCHASE OF US TREASURY 10 YEAR NOTES

THE TOP LINE SHOWS 30 YEAR MORTGAGE RATES. THE LINE BELOW IT SHOWS 10 YEAR US TREASURY RATES. THE ARROW IS MAY 22, 2013.



Source: Bloomberg

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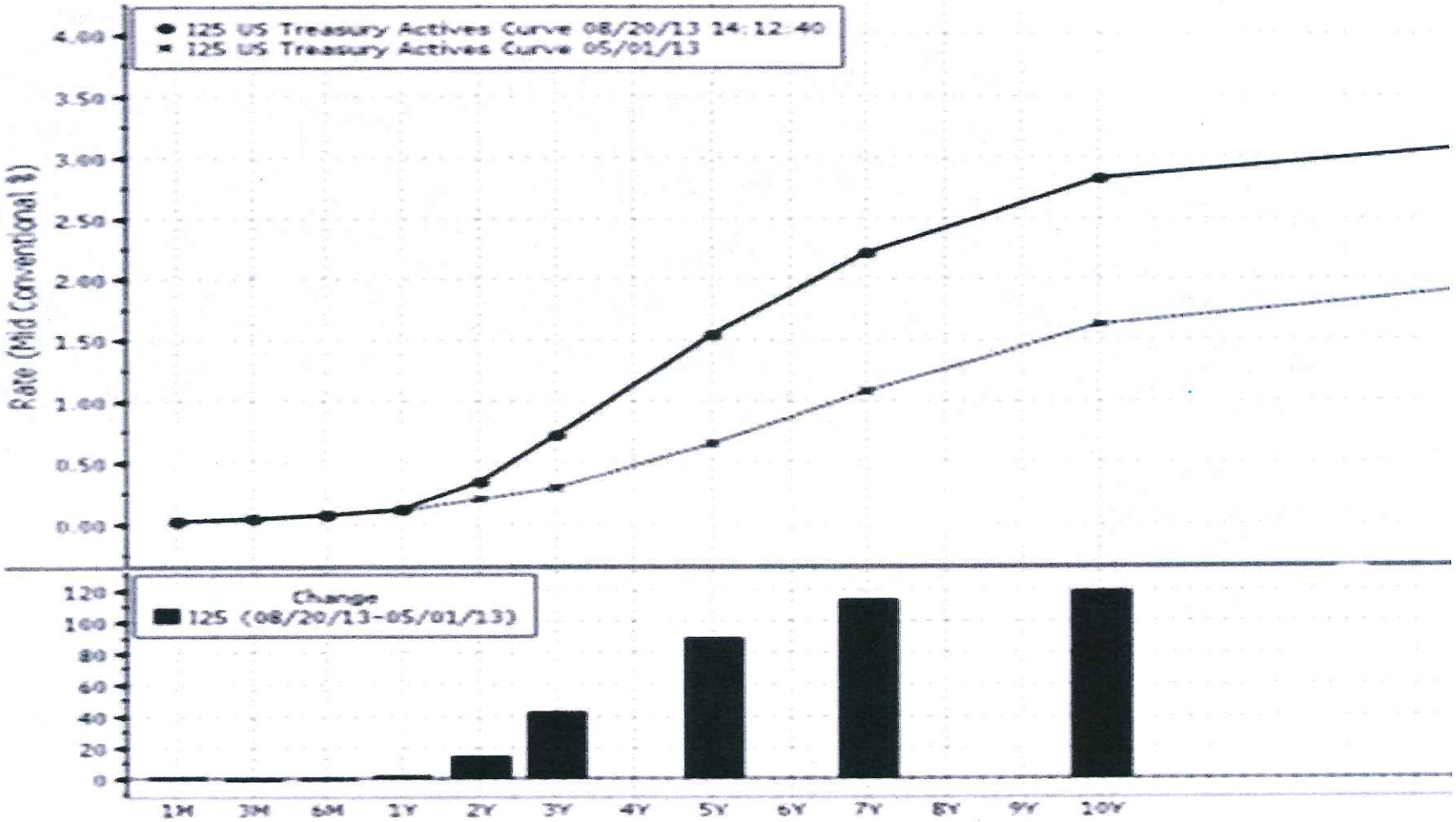
FROM 5/1/13 TO 8/8/13, NOTICE THAT YIELDS FROM 0 TO 2 YEARS HARDLY BUDGED. YIELDS FROM 3 YEARS TO 10 YEARS INCREASED A LOT.



Source: Bloomberg

- no Δ up to 1 years
- 2 yrs (close)
- 3+ (big +)

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The information provided, while not guaranteed as to its accuracy or completeness, has been obtained from sources believed to be reliable. This is for informational purposes only. Because of individual client requirements, it should not be construed as advice designed to meet the particular needs of any client. This information should not be used as the primary basis of investment decisions. Contact your financial and tax advisors before implementing any strategies outlined in this material. Member SIPC and FINRA.

Attachment B

Thramer, Gregory

From: Paul Jarvis [paul.jarvis@timevalueinv.com]
Sent: Monday, August 26, 2013 4:16 PM
To: Thramer, Gregory
Subject: Public Funds Investments

Good afternoon, Greg,

Below is the City's portfolio sorted by maturity followed by investment alternatives:

SORTED BY MATURITY:

SECURITY__	DESCRIPTION_1__	MATURITY__	PAR__	RATE__	MTHS LEFT	
313586QR3	FNMA 0 7-05-2014	7/5/2014	1,000,000.00	0.000	11	Mths N/C
3135G0CU5	FEDERAL NATL MORTGAGE ASSN	9/12/2014	1,000,000.00	0.625	1	Mths? Callable 9/12
3134G3QW3	FEDERAL HOME LOAN MTG CORP	3/6/2015	1,000,000.00	0.625	7	Mths? Callable 3/6/
3135G0RY1	FEDERAL NATL MORTGAGE ASSN	11/25/2015	1,000,000.00	0.480	15	Mths? Callable 11/2
3133EAJ33	FEDERAL FARM CREDIT BANK	8/15/2016	1,000,000.00	0.730	1	Mths? Callable 9/3/
3133EC5B6	FEDERAL FARM CREDIT BANK	11/29/2016	1,000,000.00	0.640	3	Mths? Callable 11/2

SORTED BY CALL:

SECURITY__	DESCRIPTION_1__	MATURITY__	PAR__	RATE__	MTHS LEFT	
3135G0CU5	FEDERAL NATL MORTGAGE ASSN	9/12/2014	1,000,000.00	0.625	1	Mths? Callable 9/12
3133EAJ33	FEDERAL FARM CREDIT BANK	8/15/2016	1,000,000.00	0.730	1	Mths? Callable 9/3/
3133EC5B6	FEDERAL FARM CREDIT BANK	11/29/2016	1,000,000.00	0.640	3	Mths? Callable 11/2
3134G3QW3	FEDERAL HOME LOAN MTG CORP	3/6/2015	1,000,000.00	0.625	7	Mths? Callable 3/6/
313586QR3	FNMA 0 7-05-2014	7/5/2014	1,000,000.00	0.000	11	Mths N/C
3135G0RY1	FEDERAL NATL MORTGAGE ASSN	11/25/2015	1,000,000.00	0.480	15	Mths? Callable 11/2

Ben Bernanke made this statement 9/13/12. This was repeated word for word on 10/24/12:

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Press Release

Release Date: September 13, 2012

For immediate release

The Committee....anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

This is the current pool net rate:

LGIP Anticipated Net Earnings Rate

As of June 4, 2013

.10%

BOND 1: THIS 3 YEAR AND 6 MONTH BOND IS CALLABLE IN 6 MONTHS AND QUARTERLY THEREAFTER:

FNMA 1 1/8 02/28/17 Corp | 90) Feedback | Page 1/2 Yield and Spread Analysis

95) Buy | 96) Sell | 97) Settings

1) Yield & Spread 2) Yields 3) Graphs 4) Pricing 5) Descriptive 6) Custom 7) Calls

Settlement Date 08/28/2013 Price 99.846122 Blend

YTC (3136G1SP5)	Date	Price	Yield
Yield to Maturity	02/28/2017	100.00	1.170
Yield to Custom	02/28/2017	100.00	1.170
Yield to Next Call	02/28/2014	100.00	1.435
Yield to Worst Call	02/28/2017	100.00	1.170

May be called quarterly starting 02/28/2014

Date	Price	Yield	Crv	Sprd	Adj Dur	Risk
02/28/14	100.0000	1.4350	0.049	1.386	0.496	0.496
05/28/14	100.0000	1.3333	0.086	1.247	0.741	0.740
08/28/14	100.0000	1.2804	0.127	1.154	0.991	0.989
11/28/14	100.0000	1.2501	0.191	1.059	1.234	1.232
02/28/15	100.0000	1.2288	0.256	0.973	1.483	1.480
05/28/15	100.0000	1.2145	0.319	0.896	1.724	1.722
08/28/15	100.0000	1.2031	0.394	0.809	1.971	1.968
11/28/15	100.0000	1.1948	0.492	0.703	2.212	2.208
02/28/16	100.0000	1.1877	0.589	0.598	2.458	2.454
05/28/16	100.0000	1.1822	0.685	0.497	2.697	2.692
08/28/16	100.0000	1.1774	0.784	0.393	2.941	2.936
11/28/16	100.0000	1.1736	0.889	0.284	3.179	3.174
02/28/17	100.0000	1.1700	0.994	0.176	3.422	3.416

BOND 2: THIS 2 YEAR AND 9 MONTH BOND IS CALLABLE IN 4 MONTHS AND QUARTERLY THEREAFTER:

FNMA 0.7 06/13/16 Corp | 90) Feedback | Page 1/2 Yield and Spread Analysis

95) Buy | 96) Sell | 97) Settings

1) Yield & Spread 2) Yields 3) Graphs 4) Pricing 5) Descriptive 6) Custom 7) Calls

Settlement Date 08/27/2013 Price 99.806683 Blend

YTC (3135G0YD9)	Date	Price	Yield
Yield to Maturity	06/13/2016	100.00	0.770
Yield to Custom	06/13/2016	100.00	0.770
Yield to Next Call	12/13/2013	100.00	1.357
Yield to Worst Call	06/13/2016	100.00	0.770

May be called quarterly starting 12/13/2013

Date	Price	Yield	Crv	Sprd	Adj Dur	Risk
12/13/13	100.0000	1.3572	0.015	1.342	0.293	0.293
03/13/14	100.0000	1.0570	0.054	1.003	0.541	0.540
06/13/14	100.0000	0.9446	0.093	0.852	0.789	0.789
09/13/14	100.0000	0.8864	0.138	0.748	1.036	1.036
12/13/14	100.0000	0.8503	0.202	0.648	1.284	1.283
03/13/15	100.0000	0.8262	0.265	0.561	1.530	1.530
06/13/15	100.0000	0.8086	0.330	0.478	1.777	1.776
09/13/15	100.0000	0.7955	0.411	0.385	2.022	2.021
12/13/15	100.0000	0.7851	0.508	0.278	2.268	2.267
03/13/16	100.0000	0.7769	0.604	0.173	2.513	2.512
06/13/16	100.0000	0.7700	0.702	0.068	2.758	2.756

Thanks,

Paul

Paul Jarvis | Managing Director
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