



INFORMATIONAL REPORT

DATE ISSUED: November 8, 2017

REPORT NO: HCR17-086

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of November 17, 2018

SUBJECT: Investment Report – First Quarter Fiscal Year 2018

COUNCIL DISTRICT: Citywide

NO ACTION IS REQUIRED ON THE PART OF THE HOUSING COMMISSION

SUMMARY

The attached Quarterly Investment Report details the San Diego Housing Commission's (Housing Commission) investment portfolio as of September 30, 2017. The report includes both summary and detailed information on all liquid cash and cash equivalents, and core investments owned by the Housing Commission, which is not necessarily indicative of funds available for discretionary use as a majority of the funds are already committed or represent the underlying of notes receivable and are to be kept on-hand until the notes are repaid. The market value of the portfolio on September 30, 2017, was \$157.85 million, compared to \$155.48 million in the previous quarter, resulting in an overall investment portfolio increase of \$2.37 million. At September 30, 2017, the overall investment portfolio had a yield to maturity of 1.43 percent, average days to maturity of 538, and an effective duration of 1.38 years, compared to the overall investment portfolio on June 30, 2017, which had a yield to maturity of 1.33 percent, average days to maturity of 521, and an effective duration of 1.31 years.

Cash and cash equivalents (liquid)

1. \$19.14 million is held in various accounts, including the Housing Commission's bank, US Bank (\$5.82 million) and other various authorized accounts required by lending agreements and program obligations (\$13.32 million).
2. \$31.93 million is held in pooled investment funds. Pooled funds include California's Local Agency Investment Fund (LAIF), The San Diego Foundation (TSDF) and the San Diego County Investment Pool (SDCIP).

The blended yield on these liquid accounts was 0.92 percent for the quarter, which represents an increase from the prior quarter of 0.77 percent, stemming primarily from increased posted yields related to the LAIF and SDCIP.

Core investments

3. \$103.6 million is held in Agency Debentures and/or Agency Mortgage-Backed Securities (MBS).
4. \$3.19 million is held in various FDIC insured Certificates of Deposit (CD).

The blended yield on core investments for the quarter was 1.67 percent, an increase from the previous reporting period of 1.63 percent, primarily due to an increase in rates on longer-term CDs and government bonds.

DISCUSSION

The overall market value of the investment portfolio was higher at \$157.85 million compared to the prior quarter of \$155.48 million, with the \$2.37 million increase primarily resulting from \$4.8 million in additional housing assistance payments from the U.S. Department of Housing and Urban Development and \$3.37 million of in-lieu fees and other revenue received in the quarter, offset by \$5.8 million in loan funding (New Palace, Mesa Verde, Trolley Residential, etc.)

The overall investment portfolio yield was 1.43 percent, compared to 1.33 percent in the prior quarter, reflecting the Housing Commission's movement out of cash into higher yield, short-term liquid pooled investments and higher yield government bonds with longer maturities.

CONCLUSION

The Federal Reserve held firm the Fed Funds Target rate of 1.00 percent - 1.25 percent at both the July 26, 2017, and September 20, 2017, meetings. The Fed Fund futures market reflects a low probability of a rate hike at the November 11, 2017, meeting; however, there is a high probability of an increase of 25 basis points at the December 13, 2017, meeting. President Trump's nomination of a new Fed Chairperson adds volatility to rates. Furthermore, Housing Commission staff are cognizant of the potential for further Housing Choice Voucher rescissions which would impact the Housing Commission's Federal funding. As such, Housing Commission staff will monitor the developments as they unfold and use prudence in adding duration to achieve higher yields and to ensure sufficient liquidity to maintain operations and new initiatives.

The Housing Commission's investment strategy continues to focus on ensuring the safety of the principal, maintaining sufficient liquidity to meet operational requirements, generating investment yield and where possible, investing locally. The Housing Commission will continue to build its investment portfolio with these underlying objectives in mind. The agency's durations continue to remain conservative (approximately two years) in core holdings. Also, the Housing Commission will continue to contemplate defensive investments in this potential rising rate environment.

Respectfully submitted,

Marie Lalas

Marie Lalas
Controller
Financial Services Department

Approved by,

Jeff Davis

Jeff Davis
Executive Vice President & Chief of Staff
San Diego Housing Commission

Attachments: 1) SDHC Quarterly Financial Investment Report Ending September 30, 2017

Hard copies are available for review during business hours at the security information desk in the main lobby and at the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Public Meetings" section of the San Diego Housing Commission website at www.sdhc.org