City of Stockton

Investment Portfolio Update Presentation

February 7, 2023

City Council Meeting

Agenda Item 15.3

Investment Management of Public Funds

Professional Management of City's Portfolio

- PFM Asset Management
- Chandler Asset Management
- City's Liquidity Management: Bank, LAIF, CAMP

City's Investment Policy

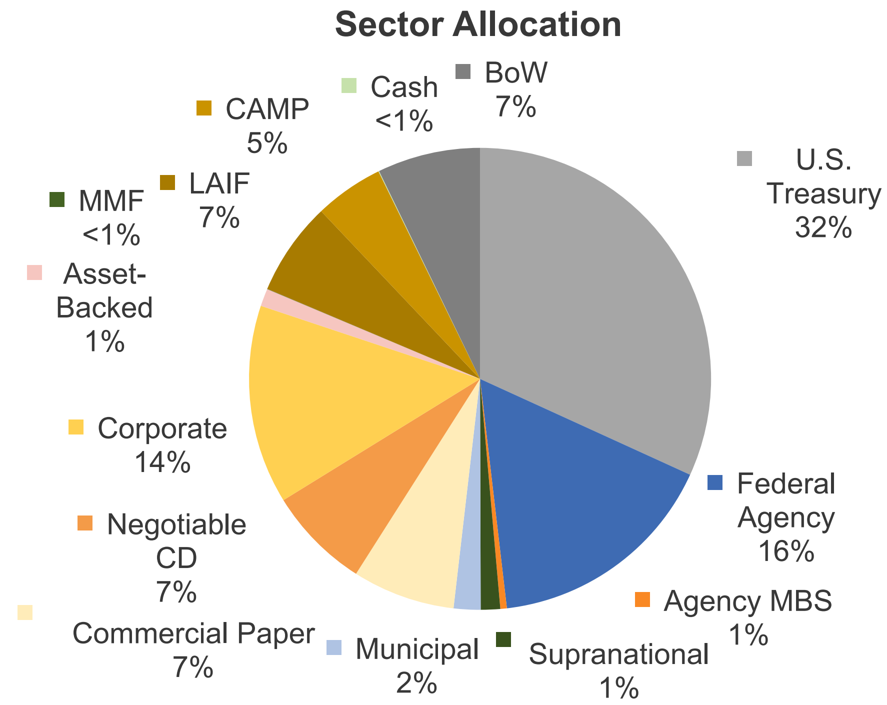
- Safety: Diversification & Credit Quality
- Liquidity: Duration & Interest Rate Risk
- Yield: Time Horizon & Yield Curve

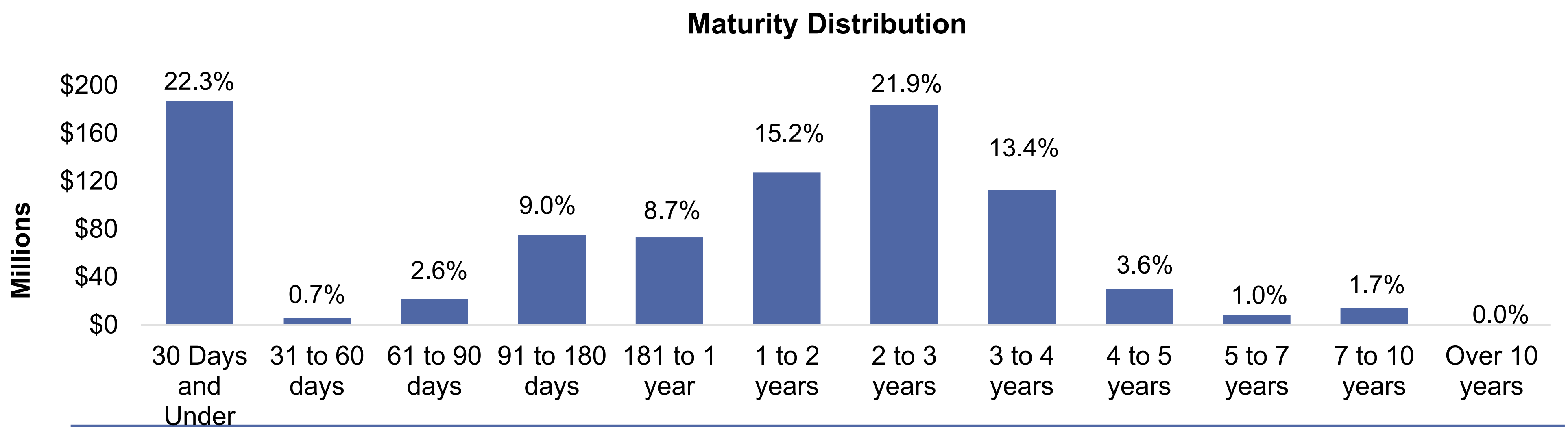
Managing the City's Cash Flows

- Timing of large cash outflows
- Liquidity in the portfolio to meet the needs
- Adequate positioning of funds to capitalize on market conditions

Investment Program Snapshot

Program Summary	
Reserve Portfolio	**$573,735,366**
Yield at Cost	*1.43%*
Average Duration	*2.25*
Average Credit Quality	*AA*
Short-Term Portfolio	**$109,922,916**
Yield at Cost	*3.09%*
Average Duration	*0.25*
Average Credit Quality	*A-1*
Overnight Accounts	
BoW Main Account	$60,400,763
CAMP Pool	$40,584,621
Local Agency Investment Fund	$55,000,000
Total Program	**$839,643,666**





A Look Back

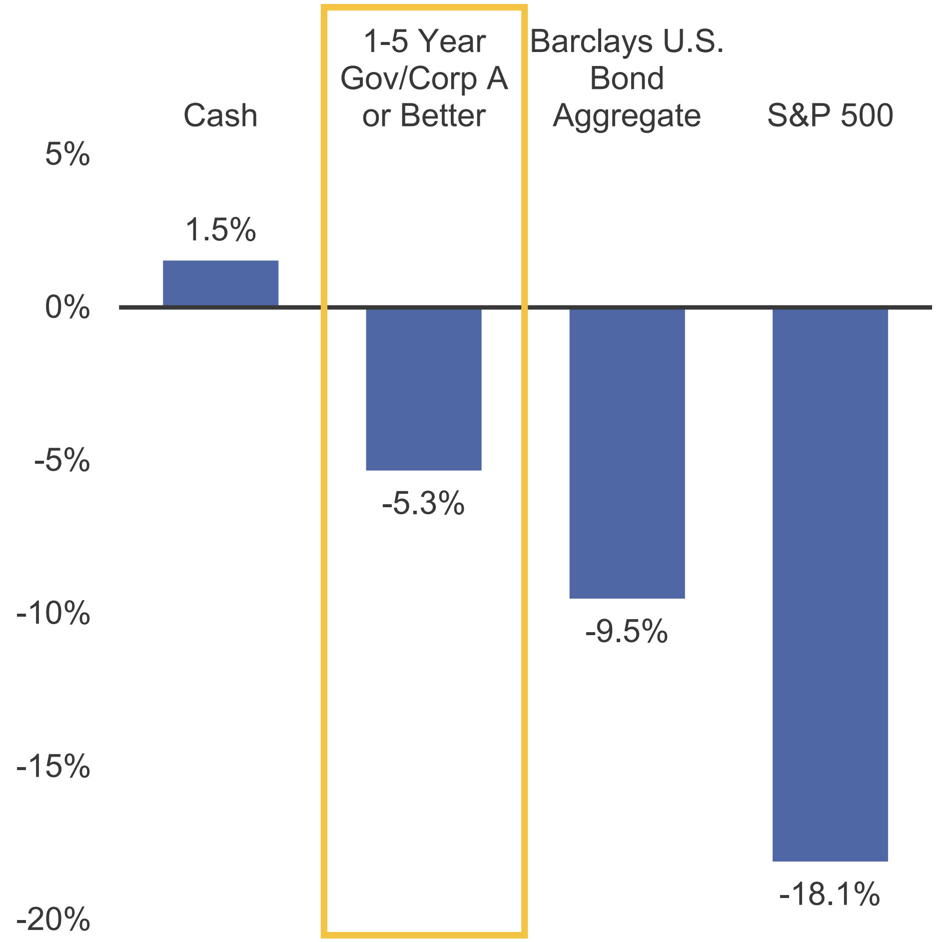
Pandemic Responses
- Monetary stimulus
- Fiscal stimulus
- Healthcare mobilization

Consequences
- Supply chain challenges
- Consumer demand for goods, then services
- Soaring energy prices
- Inflation

The Pivot
- Fed starts aggressive series of rate hikes
- Quantitative tightening begins
- Forward expectations

Resetting Expectations
- Widespread re-pricing of financial assets
- Expectations for slowing economic growth
- Heightened vulnerability

2022 Asset Class Returns

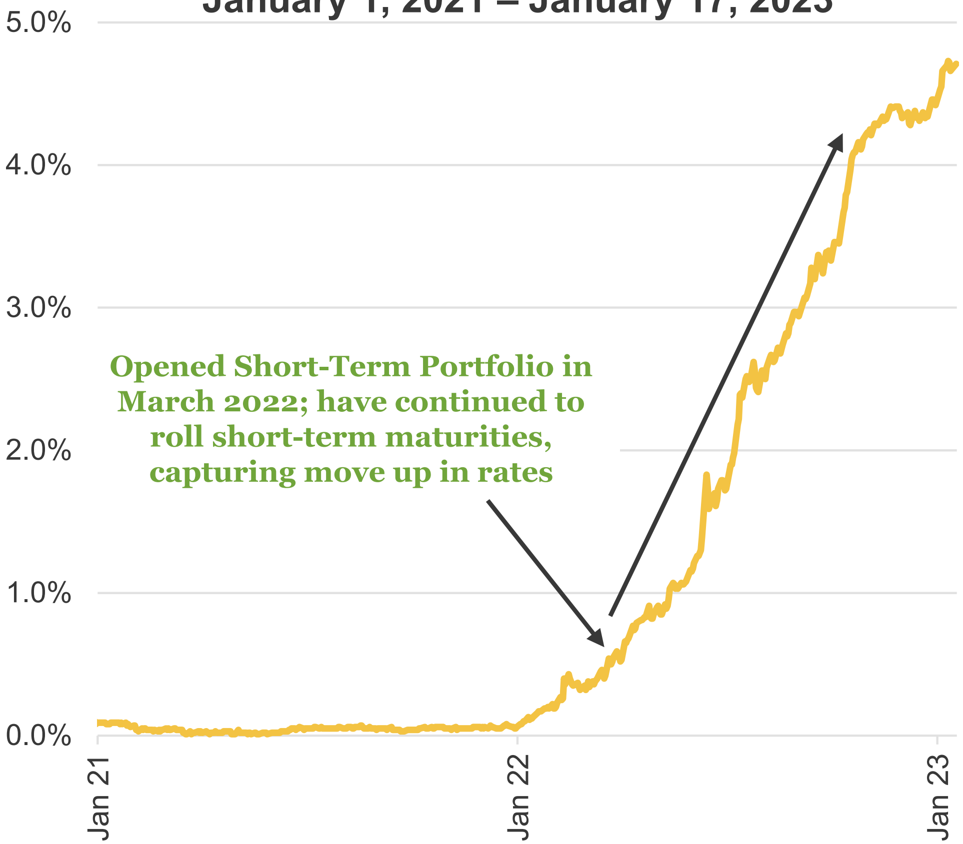


Source: Bloomberg, as of December 31, 2022.

Recent Interest Rate Trends

- Interest rates moved up sharply in 2022, in response to Federal Reserve monetary policy, creating new opportunities for the City's funds.

3-Month Treasury Yield
January 1, 2021 – January 17, 2023



10-Year Treasury Yield
January 1, 2021 – January 17, 2023

Source: Bloomberg, as of 1/17/2023.

Looking Forward

Market Conditions

- Inflation expected to moderate in 2023
- Fed Funds rate expected to peak in the first half of 2023
- Interest rates may stabilize, trend lower in latter half of year
- Expectations for a modest yet broad economic downturn

Portfolio Strategy

- Continue to capture opportunities for enhanced return in the City's portfolios
- Shift from shorter-term investments into longer-term, 5+ year, maturities
- Regularly evaluate allocation between overnight funds and invested funds to maintain optimal allocation
- Maintain a strong sense of safety and risk management

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