



April 5, 1996

Los Angeles County
Metropolitan
Transportation
Authority

TO: MTA BOARD OF DIRECTORS
FROM: RONNY GOLDSMITH (JGS)
SUBJECT: INVESTMENT REPORT FOR MONTH ENDED
FEBRUARY 29, 1996

One Gateway Plaza
Los Angeles, CA
90012

213.922.6000

Mailing Address:
P.O. Box 194
Los Angeles, CA 90053

BACKGROUND

The purpose of the monthly report on investments is to certify that MTA's cash and investment portfolios are in compliance with the MTA Investment Policy adopted by the Board on October 27, 1993, as revised August 24, 1995.

INVESTMENT POLICY COMPLIANCE

All managers with the exception of V.A. Reid were out of compliance with the Investment Policy as of February 29, 1996. Managers continue to adjust their portfolios to comply with the policy changes. All managers must be in compliance by March 31, 1996, with the exception of Schroder Wertheim. Schroder Wertheim requested and was granted a new target date of October 31, 1996 to come into compliance.

Exceptions to the policy as of February 29, 1996 were:

1. The investment policy prohibits holdings in derivatives. Amervest, Bear Stearns and Danson & Neuhar held derivative securities on February 29, 1996. Both Bear Stearns, and Danson & Neuhar reduced their derivative holdings from January 31, 1996.
2. The investment policy limits the maximum maturity of an individual investment to five years. Danson & Neuhar held one investment with a maturity greater than five years.
3. The investment policy limits corporate investments to 15% of the portfolio. Bear Stearns, Schroder Wertheim, and Sanwa exceeded this limit.
4. The investment policy limits investments in agencies to 25%. LM Capital, and the Sanwa Internal portfolio exceeded this limit.

5. The investment policy limits commercial paper holdings to 30% of the portfolio. The Sanwa Internal portfolio exceeded this limit.
6. L.A. County Pool
 - a) L.A. County Pool Non-Compliance with MTA Investment Policy

As of February 29, 1996, The L.A. County Pool held asset-backed and floating rate securities which are specifically prohibited by the MTA investment policy. However, both securities are in compliance with the California Code and the L.A. County Treasurer's Investment Policy. The L. A. County Pool also held less than 1% of their total portfolio in securities with maturities in excess of five years.
 - b) L.A. County Pool Non-Compliance with L.A. County Investment Policy

During the month of February 1996, the L.A. County Pool held two corporate securities that exceeded their internal policy's investment limits.
7. Effective January 31, 1996, Senate bills 564 and 866 changed the minimum collateral requirements on repurchase agreements from 100% to 102%. These requirements extended to the repurchase agreements held by money market funds. Subsequently, all MTA investment managers with the exceptions of the Sanwa Portfolio, Danson & Neuhar, and LM Capital, were out of compliance with this requirement. The portfolio's that were out of compliance had holdings in money market funds that only collateralized repurchase agreements at 100%. As of March 22, 1996, all funds were removed from those money market funds.

INVESTMENT RETURNS

Attachment I displays the returns for the investment manager's portfolios. Due to rising interest rates in the month of February, the intermediate duration benchmark, as well as the intermediate duration managers' returns were negative.

Sanwa Trust manages a short duration portfolio, and a portfolio used to meet daily operating cash needs specified as the Internal Manager Account. As indicated in Attachment I, the Internal Manager portfolio outperformed the benchmark for the month, but slightly underperformed for the fiscal year-to-date period. The short duration portfolio underperformed the benchmark for the month, but outperformed for the fiscal year-to-date period.

As shown in Attachment I, all intermediate duration managers, except for Bear Stearns and Danson & Neuhar underperformed the benchmark for the month ended February 29, 1996. For the fiscal year-to-date period, all managers, except Bear Stearns, outperformed the benchmark.

RELEVANT STAFF ACTIVITIES

Treasury staff are developing new processes and procedures to effectively manage cash and investments. The following activities represent areas of concentration by Treasury Staff:

1. The Investment Policy approved on February 28, 1996 has been submitted to the Municipal Treasurers Association for certification.
2. Through March 27, 1996, \$137 million in bond proceeds have been reinvested reducing negative arbitrage by approximately \$53,000.
3. Staff are receiving strategy updates monthly from the external managers in order to monitor performance more closely.
4. In February 1996, the weighted average maturity was 1.1 years, compared to 1.3 years in January 1996, and 1.3 years in July 1995. The weighted average maturity of all investments was restated in the February report to reflect the actual days to maturity for the L.A. County pool and money market funds which were 174 days and 69 days respectively. Prior reports reflected the availability of the L.A. County pool and money market funds at 14 days and 1 day respectively.
5. An Investment Manager RFP was submitted to the Procurement Department for processing, and will be issued no later than June 30, 1996. Current investment managers have been informed that managers who have not met their benchmark and whose performance has not improved as of June 30, 1996 will be terminated and new managers put in place.
6. The in-house investment database, and the Bloomberg system are scheduled to be in place by April 30, 1996.
7. An RFP for Banking Services will be issued by April 30, 1996.

Attachment I: Investment Manager Returns

Attachment II: February 1996 Report on Cash & Investments

Prepared by: Donna Robinson Mills & Debbie Shapiro

Attachment I
Investment Manager Returns
Periods Ending February 29, 1996

Short Duration Managers

| | Month | Fiscal YTD |
|---|-------|------------|
| Internal Manager Portfolio (Sanwa Trust) | 0.46% | 3.70% |
| Short Duration Portfolio (Sanwa Trust) | 0.21% | 3.84% |
| Current Benchmark Six month T bill + 20 bps | 0.44% | 3.71% |

Intermediate Duration Managers

| | Month | Fiscal YTD |
|--|---------|------------|
| Amervest | (0.53)% | 4.60% |
| Bear Stearns | (0.30)% | 4.43% |
| Danson & Neuhar | (0.24)% | 5.01% |
| LM Capital | (0.48)% | 4.67% |
| V.A. Reid | (0.40)% | 4.61% |
| Schroder Wertheim | (0.41)% | 4.85% |
| Current Benchmark Merrill Lynch 1-3 year Government/Corporate Index | (0.39)% | 4.54% |

ATTACHMENT II

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

REPORT ON CASH & INVESTMENTS

FEBRUARY 29, 1996

Los Angeles County Metropolitan Transportation Authority

CASH AND INVESTMENT REPORT OVERVIEW FEBRUARY 29, 1996

The Los Angeles County Metropolitan Transportation Authority Treasury Department is responsible for various funds which can be divided into four categories:

| | <u>Current Month</u> <u>February 29, 1996</u> | <u>Previous Month</u> <u>January 31, 1996*</u> | <u>Change</u> |
|--|--|---|----------------|
| Discretionary/Operating Funds | 566,259,350 ¹ | 529,461,362 ¹ | 36,797,988 |
| Bond proceeds, debt service reserves, and other debt related funds | 1,779,543,878 | 1,777,727,260 | 1,816,618 |
| Pension & Deferred Compensation Reserves | 782,564,505 ² | 784,088,756 ² | (1,524,251) |
| Other (Transit Guarantee Bond Program, escrows) | <u>15,334,933</u> | <u>15,336,240</u> | <u>(1,307)</u> |
| TOTAL | 3,143,702,666 | 3,106,613,618 | 37,089,048 |

Additionally, the LACMTA Treasury Department administers funds (approximately \$183 million) for government programs such as the High Occupancy Vehicle program, and the Transportation Development Act program, and provides Treasury services to other organizations such as the SCRRA.

*Bond proceeds total revised to reflect debt related funds that were excluded in error in the January report.

¹ Includes accrued income

² Reported at market value

Los Angeles County Metropolitan Transportation Authority

SUMMARY and COMPARISON
DISCRETIONARY / OPERATING FUNDS
FEBRUARY 29, 1996

| Description | CURRENT MONTH | PRIOR MONTH | | | | | | | | |
|--------------------------------------|------------------------|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|--|
| | February 29, 1996 | January 31, 1996 | December 31, 1995 | November 30, 1995 | October 31, 1995 | September 30, 1995 | August 31, 1995 | July 31, 1995 | June 30, 1995 | |
| Yield to Maturity (at market) | | | | | | | | | | |
| Bank Deposits | 3.87% | 4.71% | 3.65% | 4.15% | 3.69% | 3.46% | 3.35% | 2.69% | 3.61% | |
| LA County Investment Pool | 5.55% | 5.74% | 5.84% | 5.88% | 5.84% | 5.84% | 5.76% | 5.89% | 5.91% | |
| Minority CD Program | 5.19% | 5.28% | 5.28% | 5.64% | 5.26% | 5.32% | 5.36% | 5.41% | 5.37% | |
| Managed Investments | <u>5.41%</u> | <u>5.26%</u> | <u>5.53%</u> | <u>5.53%</u> | <u>5.80%</u> | <u>6.02%</u> | <u>5.98%</u> | <u>5.98%</u> | <u>5.99%</u> | |
| Total Wtd Avg YTM (at mkt) | 5.38% | 5.33% | 5.58% | 5.65% | 5.70% | 5.89% | 5.69% | 5.41% | 5.66% | |
| Wtd. Avg. Maturity (days) | 415 | 448 | 400 | 425 | 447 | 399 | 449 | 441 | 437 | |
| Balances | | | | | | | | | | |
| Bank Deposits | 14,445,795 | 9,948,862 | 1,789,182 | 4,214,190 | 20,641,394 | 23,717,949 | 78,387,704 | 99,804,239 | 78,437,902 | |
| LA County Investment Pool | 38,307,695 | 93,468,013 | 105,246,342 | 54,123,010 | 38,286,921 | 59,285,362 | 36,043,117 | 34,228,083 | 81,856,305 | |
| Minority CD Program | 2,084,000 | 2,183,000 | 2,282,000 | 2,381,000 | 2,381,000 | 2,381,000 | 2,881,000 | 2,881,000 | 2,980,000 | |
| Managed Investments | <u>511,421,860</u> | <u>423,861,487</u> | <u>436,690,389</u> | <u>472,749,375</u> | <u>439,729,346</u> | <u>462,230,519</u> | <u>441,999,484</u> | <u>451,208,779</u> | <u>432,370,863</u> | |
| Total Book Value | 566,259,350 | 529,461,362 | 546,007,913 | 533,467,574 | 500,588,661 | 547,614,830 | 559,311,305 | 588,122,101 | 595,645,070 | |
| Total Market Value | 562,627,159 | 527,103,190 | 543,134,356 | 530,694,549 | 496,869,991 | 543,087,418 | 555,480,365 | 583,160,601 | 592,277,548 | |
| Total Par Value | 551,619,645 | 513,394,447 | 529,724,239 | 517,077,776 | 484,337,433 | 531,800,492 | 544,570,464 | 572,553,900 | 581,223,567 | |
| Interest - Earned | \$ 2,313,261.53 | \$ 1,990,437.34 | \$ 2,199,489 | \$ 2,309,848 | \$ 2,451,771 | \$ 2,609,042 | \$ 2,904,921 | \$ 2,352,190 | \$ 3,052,484 | |
| Interest - Received | \$ 3,821,821.77 | \$ 2,113,134.25 | \$ 1,988,055 | \$ 2,454,605 | \$ 2,798,895 | \$ 2,310,300 | \$ 3,251,256 | \$ 2,273,312 | \$ 2,929,523 | |

Note: Book Value is the original cost of the investment, plus accrued interest and amortization of any discount or premium. Market Value is the current market price of the investment. Par Value (or face value) is the principal amount paid at maturity.

Los Angeles County Metropolitan Transportation Authority

CASH and INVESTMENT SUMMARY DISCRETIONARY/OPERATING FUNDS FEBRUARY 29, 1996

| <u>Description</u> | <u>Balance</u> (at cost) | <u>Wtd. Avg.</u> <u>YTM</u> (at mkt) | <u>Wtd. Avg.</u> <u>Maturity</u> (days) | <u>Percentage</u> |
|-------------------------------------|-----------------------------|--|---|-------------------|
| Bank Deposits | 14,445,795 ¹ | 3.87% | 1 | 2.6% |
| LA County Investment Pool | 38,307,695 | 5.55% | 174 ² | 6.8% |
| Minority Bank CD Program | 2,084,000 | 5.19% | 62 | 0.4% |
| Managed Investments | | | | |
| Money Market Funds | 56,503,690 | 4.73% | 69 ³ | 10.0% |
| Mutual Fund (Adj. Rate Mortg) | 15,000,000 | 5.63% | 913 | 2.6% |
| Commercial Paper | 73,246,005 | 5.16% | 7 | 12.9% |
| Treasuries | 161,199,980 | 5.41% | 677 | 28.5% |
| Federal Agencies | 117,667,292 | 5.53% | 272 | 20.8% |
| Municipal Obligations | 3,776,985 | 7.74% | 921 | 0.7% |
| Corporate Notes | 77,741,260 | 5.69% | 710 | 13.7% |
| Mortgages | 3,472,794 | 6.88% | 2,715 | 0.6% |
| Asset Backed Securities | 2,813,854 | 5.96% | 239 | 0.5% |
| <i>SUBTOTAL - Managed</i> | <i>511,421,860</i> | <i>5.41%</i> | <i>446</i> | <i>90.3%</i> |
| Total Cash & Investments | 566,259,350 | 5.38% | 415 | 100.0% |

¹ Earnings on Bank Deposits include interest earned plus service fees offset by the balance credit allowance

² Reflects days to maturity of L.A. County pool-prior reports reflected 14 day availability

³ Reflects days to maturity of money market funds-prior reports reflected 1 day availability

Los Angeles County Metropolitan Transportation Authority

LIQUIDITY SCHEDULE DISCRETIONARY/OPERATING FUNDS FEBRUARY 29, 1996

| | Availability | Balance (at cost) | YTM ¹ at mkt | Cumulative Availability |
|-------------------------------------|-----------------------|----------------------|----------------------------|----------------------------|
| Bank Deposits | Immediate | 14,445,795 | 3.87% | 14,445,795 |
| Money Market Funds | Immediate | 56,503,690 | 4.73% | 70,949,485 |
| Mutual Fund (Adj Rate Bond) | Immediate | 15,000,000 | 5.63% | 85,949,485 |
| LA County Invest. Pool | < 14 days | 38,307,695 | 5.55% | 124,257,180 |
| Minority CD Program | See attached schedule | 2,084,000 | 5.19% | 126,341,180 |
| Investments Maturing: | < 30 days | 137,794,778 | 5.18% | 264,135,958 |
| | 30 -60 days | 8,829,490 | 6.17% | 272,965,448 |
| | 60-90 days | 4,783,764 | 5.38% | 277,749,212 |
| | 90- 1 year | 114,943,509 | 5.34% | 392,692,721 |
| | 1 to 2 years | 51,478,588 | 5.52% | 444,171,309 |
| | 2 to 3 years | 54,217,262 | 5.80% | 498,388,571 |
| | 3 to 4 years | 36,824,463 | 5.92% | 535,213,034 |
| | 4 to 5 years | 28,011,399 | 5.99% | 563,224,433 |
| | > 5 years | 3,034,917 | 6.97% | 566,259,350 |
| Total Cash & Investments | | 566,259,350 | 5.38% | |

¹ Yield to Maturity is the single rate of return earned on an investment considering all cash flows and timing factors

Los Angeles County Metropolitan Transportation Authority

INVESTMENT MANAGER PERFORMANCE DISCRETIONARY/OPERATING FUNDS FEBRUARY 29, 1996

| <u>Investment Manager</u> | <u>Balance</u> (at market) | <u>Balance</u> (at cost) | <u>YTM</u> (at mkt) | <u>Avg. Mat.</u> (days) (years) | <u>PERFORMANCE</u> | | | | <u>Fiscal YTD</u> | |
|---|-------------------------------|-----------------------------|------------------------|-------------------------------------|-------------------------------------|--|------|------|-------------------|------|
| | | | | | <u>Month</u> 2/29/96 | <u>Quarters Ending</u> 12/31/95 9/30/95 6/30/95 | | | | |
| <u>Short Duration</u> | | | | | <u>Total Return (gross of fees)</u> | | | | | |
| Internal (Sanwa) | 148,453,656 | 148,784,032 | 5.06% | 108 | 0.3 | 0.46 | 1.28 | 1.48 | 2.66 | 3.70 |
| Sanwa | 109,920,420 | 110,500,148 | 5.30% | 180 | 0.5 | 0.21 | 1.51 | 1.53 | 1.76 | 3.84 |
| Benchmark - 6 month Treasury plus 20 basis points | | | | | | 0.44 | 1.45 | 1.31 | 1.58 | 3.71 |
| <u>Intermediate Duration</u> | | | | | <u>Total Return (gross of fees)</u> | | | | | |
| Amervest | 37,657,822 | 38,239,073 | 5.94% | 1,064 | 2.9 | (0.53) | 2.68 | 1.67 | 3.90 | 4.60 |
| Bear Stearns | 37,502,571 | 38,485,194 | 5.36% | 738 | 2.0 | (0.30) | 2.39 | 1.55 | 3.53 | 4.43 |
| Danson & Neuhar | 16,639,967 | 16,555,186 | 5.74% | 915 | 2.5 | (0.24) | 2.71 | 1.64 | 3.58 | 5.01 |
| LM Capital | 39,770,223 | 39,906,718 | 5.92% | 898 | 2.5 | (0.48) | 2.80 | 1.56 | 3.91 | 4.67 |
| VA Reid | 37,156,849 | 37,447,419 | 5.53% | 725 | 2.0 | (0.40) | 2.58 | 1.54 | 3.85 | 4.61 |
| Schroder Wertheim | 54,294,619 | 55,003,735 | 5.65% | 770 | 2.1 | (0.41) | 2.78 | 1.62 | 3.64 | 4.85 |
| Benchmark - Merrill Lynch 1 - 3 year Government/Corporate Index | | | | | | (0.39) | 2.53 | 1.51 | 3.23 | 4.54 |
| (Previous Benchmark - Merrill Lynch 1 - 5 year Gov/Corp Index) | | | | | | (0.69) | 2.97 | 1.53 | 4.01 | 4.74 |

Los Angeles County Metropolitan Transportation Authority

CERTIFICATE OF DEPOSIT PROGRAM FEBRUARY 29, 1996

| <u>Institution</u> | <u>Amount</u> | <u>Rate</u> | <u>Maturity Date</u> | <u>Days to Maturity</u> |
|---|---------------|-------------|--------------------------|-----------------------------|
| American International Bank | 99,000.00 | 4.60% | 8/26/96 | 179 |
| Broadway Federal Bank | 99,000.00 | 4.90% | 5/28/96 | 89 |
| Cathay Bank-(reduced to 99,000 3/12/96) | 500,000.00 | 5.20% | 3/12/96 | 12 |
| East - West Federal Bank | 99,000.00 | 5.12% | 4/19/96 | 50 |
| Family Savings Bank | 99,000.00 | 5.10% | 4/19/96 | 50 |
| Far East Bank | 99,000.00 | 5.00% | 7/8/96 | 130 |
| First Continental Bank | 99,000.00 | 5.12% | 3/17/96 | 17 |
| First Public Savings Bank | 99,000.00 | 5.00% | 5/14/96 | 75 |
| Founders National Bank | 99,000.00 | 5.10% | 3/20/96 | 20 |
| Grand National Bank | 99,000.00 | 5.25% | 4/29/96 | 60 |
| Hamni Bank | 99,000.00 | 5.15% | 8/4/96 | 157 |
| Omni Bank | 99,000.00 | 4.75% | 8/5/96 | 158 |
| Preferred Bank | 99,000.00 | 6.50% | 4/17/96 | 48 |
| Standard Savings Bank | 99,000.00 | 5.25% | 5/10/96 | 71 |
| Transit District FCU | 99,000.00 | 5.25% | 4/29/96 | 60 |
| Western State Bank | 99,000.00 | 5.75% | 4/29/96 | 60 |
| Wilshire Bank | 99,000.00 | 5.12% | 3/25/96 | 25 |
| TOTAL PROGRAM | 2,084,000.00 | 5.19% | | 62 |

Los Angeles County Metropolitan Transportation Authority

LA County Treasurer's Investment Pool FEBRUARY 29, 1996

The MTA has \$38.3 million invested and available for expenditure with the Los Angeles County Treasurer's Investment Pool as of February 29, 1996. The earnings rate for February 1996 was 5.55%.

The MTA is also administrator of various funds which must be invested with the Los Angeles County Treasurer by enabling legislation or by court directive.

| | <u>\$ thousands</u> |
|--|---------------------|
| HOV Project Funds | 588.6 |
| State Transit Assistance Bus Funds (A) | 7,149.7 |
| State Transit Assistant Rail Funds (A) | 16,896.2 |
| TDA Local Transportation Account | <u>158,682.3</u> |
| Total Administered Funds | \$ 183,316.7 |

Additionally, approximately \$71.3 million of trustee bond proceeds and debt service reserve funds are invested with the LA County Treasurer.

(A) In the January 1996 report the State Transit Assistance Bus and Rail Accounts were shown as closed and the fund balances incorrectly reported as \$0.00. The correct balances were \$7.9 and \$16.8, respectively.