# county of ventura 

# SUBJECT: REPORT OF INVESTMENTS FOR THE MONTH ENDING MAY 31, 2005, INCLUDING MARKET VALUES FOR ALL INVESTMENTS FOR THE MONTH 

RECOMMENDATION: Discuss and File

## FISCAL/MANDATES IMPACT: None

## DISCUSSION:

The average daily portfolio balance for the month of May amounted to $\$ 1.6$ billion. The portfolio yield for the month of May was $2.83 \%$. The weighted average days to maturity increased 5 days to 245 days. The total net monthly earnings were $\$ 3.8$ million. The portfolio has been structured to satisfy the anticipated cash flow needs of the participants. The investment practices and portfolio holdings are in compliance with the investment policy.

The Federal Reserve maintained its policy by raising short-term interest rates again in May. On May $3^{\text {rd }}$, as expected, the Federal Open Market Committee (FOMC), the Fed's policymaking body, increased the Federal Funds rate by 25 basis points to $3 \%$. This marked the $8^{\text {th }}$ straight 25 basis point increase since the Fed started raising rates in June of 2004.

It also appears that the FOMC is not through raising rates. In the press release announcing the bump in rates, the Committee suggested that even with this steady increase in interest rates, they believe that monetary policy is still easy, suggesting that rates can still go higher without creating undue stress on the economy. In the press release the FOMC expressed itself this way:

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Recent data suggests that the solid pace of spending growth has slowed somewhat, partly in response to the earlier increases in energy prices. Labor market conditions, however, apparently continue to improve gradually. Pressures on inflation have picked up in recent months and pricing power is more evident. Longer-term inflation expectations remain well contained.

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In all it seems that the Fed is prepared to continue to raise short-term interest rates as it monitors the economy. Economic forecasters suggest that the Fed may have two to three more rate increases to go, before they get to their perceived target.

The economic data reported during the month is consistent with the Fed view. The unemployment rate remained at $5.2 \%$, while non-farm payrolls grew by a strong 274,000 jobs. Construction spending grew, as did orders for durable goods, personal income and retail sales. The residential housing market continued to have impressive gains. Cautionary signs exist as inflation rates driven by energy costs are still high while consumer confidence data has been weakening recently.

The capital markets took the Fed's actions in stride. Interest rates changed only slightly during the month. Short-term rates had increased in April in anticipation of the increase in early May. After the move in Federal Funds rate, short-term rates moved sideways. Long-term rates edged lower 5 to 10 basis points, as inflation expectations remain muted, due to the belief that the Fed will act to curb inflation.

Given the current interest rate environment, we anticipate the County's yield to increase modestly. Further, we continue to seek investment opportunities in order to optimize earnings (U.S. Treasury Market graph attached).

Attached is a listing of market values provided by our custodian, Wells Fargo Bank, for all investments for the month ending May 31, 2005. GASB Statement No. 31 states that variances between the cost of investments and the fair value of investments shall not be considered budgetary resources or uses of resources unless the value of investments is permanently impaired because of decreased issuer creditworthiness or it is determined that the Treasurer is unable to hold investments to maturity.

The following is a list of attached graphs:

- Portfolio Average Monthly Balance
- Average Portfolio Maturity
- Balance Yield Comparison by Month
- Portfolio Holdings by Instrument Type
- Yield Curve, U.S. Treasury Market
- Maturity Distribution

This letter has been reviewed by the CEO, the Auditor-Controller, and County Counsel.
If you have any questions regarding this item, please call Chief Investment Officer Robert A. Hansen at 654-3733.


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Attachment

## Asset Description 1 \& 2




## General Reporting - Maturity Date From Month End 05/31/2005 $06 / 01 / 200505: 45: 48$ PM EDT

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## Asset Description 1 \& 2

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[^0]:    LAWRENCE L. MATHENEY
    Treasurer-Tax Collector

