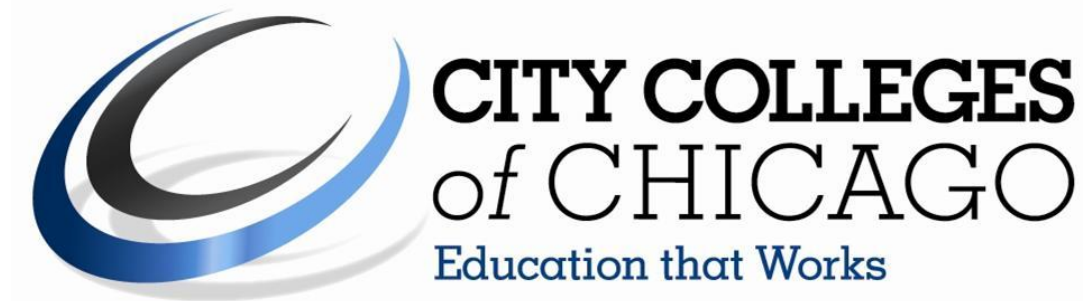


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**BOARD OF TRUSTEES COMMUNITY COLLEGE DISTRICT NO. 508**

**SEPTEMBER 13, 2012**



# **Annual Investment Portfolio Review**

**2012 Fiscal Year**

**PFM Asset Management LLC**

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Chicago, IL 60601

[www.pfm.com](http://www.pfm.com)

# FY 2012 Core Investment Strategy

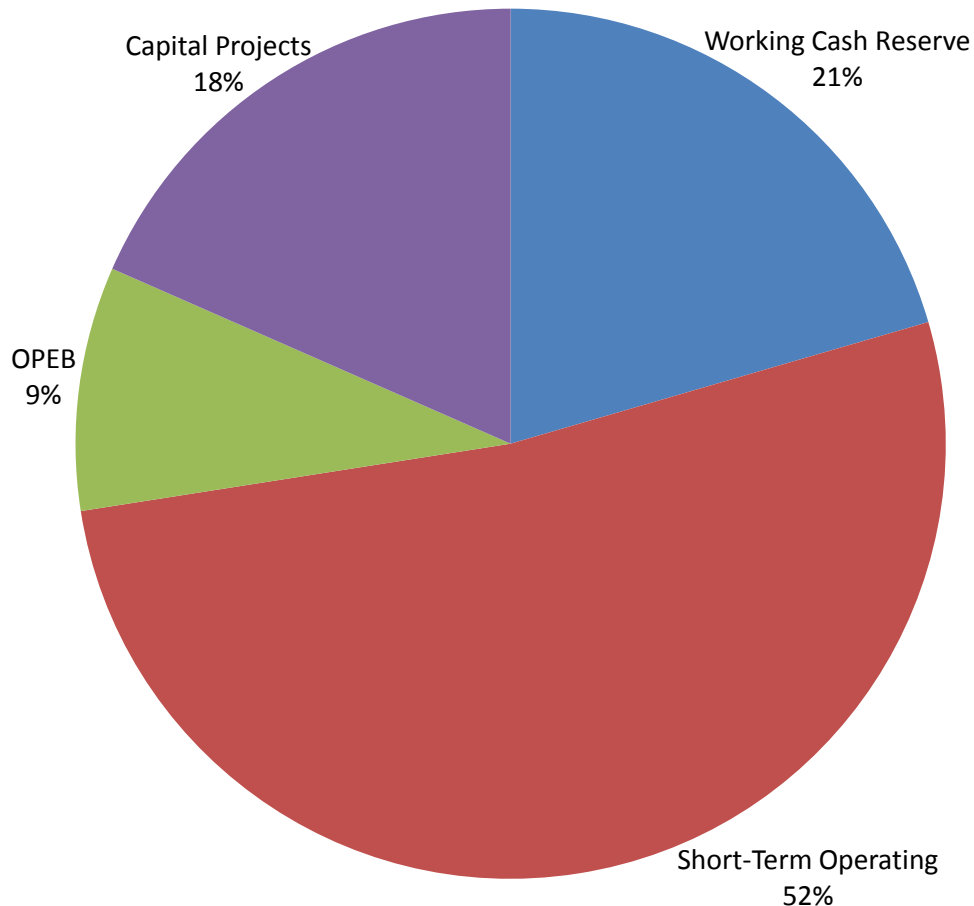
- Many short-term investment options were hovering near 0.00% and yields continued to stay low through FY 2012 due to the following:
  - Economic recovery appeared to be slowing
  - Fed has been keeping interest rates “exceptionally low” for an “extended period”
  - High unemployment persisted
  - Impact of high commodity prices was “transitory”
  - Sovereign problems in Europe
  - Global economic slowdown
- Although interest rates were low, there was a significant penalty for excess liquidity or waiting for rates to increase, so investments were extended , when possible, to add value
- The yield curve was still steep, compensating investors for the added interest rate risk; investments in the 2 to 3 year sector were good options compared to alternative short-term choices
- Active investment management and higher immediate earnings from longer duration investments will continue to provide protection if rates increase sooner than expected
- Going forward, as always, PFM will strive to maintain safety of principal, while seeking opportunities to add value through active management
- It should be noted that the CCC’s Working Cash, Short-Term Operating, and OPEB portfolios are performance benchmarked because they are ongoing accounts while the Truman Project and the Capital Improvement Projects portfolios are project oriented accounts that are not performance benchmarked because they have a specified start and end date.

# Total Portfolio Breakout

- The portfolios are segmented so investments can be more closely matched to expenses

## OVERALL PORTFOLIO ALLOCATION

As of 6/30/2012



### Breakout of PFM-Managed Portfolios Only

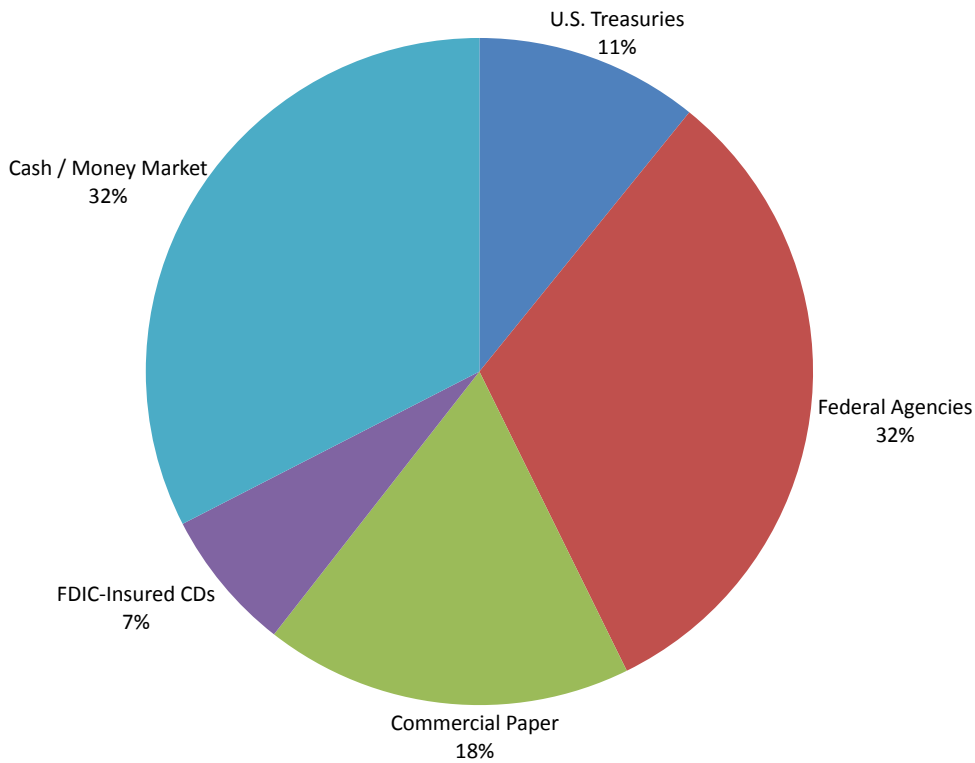
Portfolio	\$ Amount
Working Cash Reserve	\$62,917,161
Short-Term Operating	
3-Month Reserve/Daily Operating	\$61,974,388
Board Designated - Capital	\$97,817,080
	<hr/>
	\$159,791,468
Capital Projects	\$56,543,016
OPEB	\$27,831,283
<b>TOTAL</b>	<b>\$307,082,928</b>

# Overall Portfolio Composition Comparison

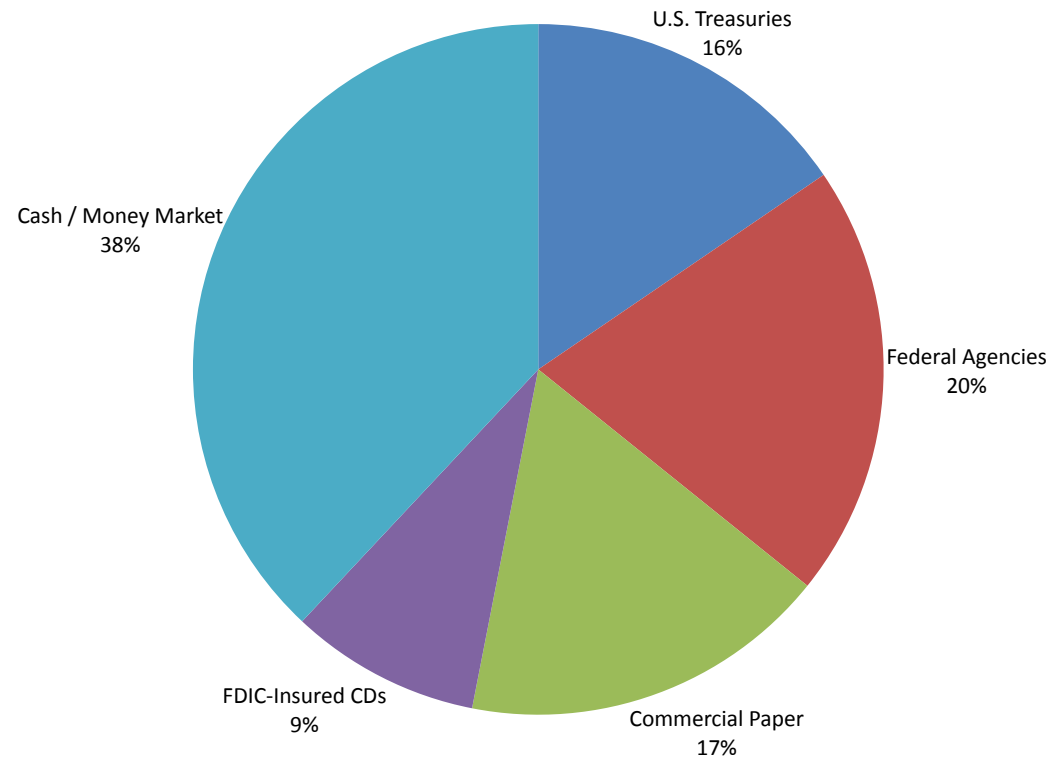
- The sector allocation strategy shifted year-over-year in accordance with the CCC's investment policy to provide a yield pickup and to enhance performance operations

## TOTAL SECTOR ALLOCATION

**As of 6/30/2012**



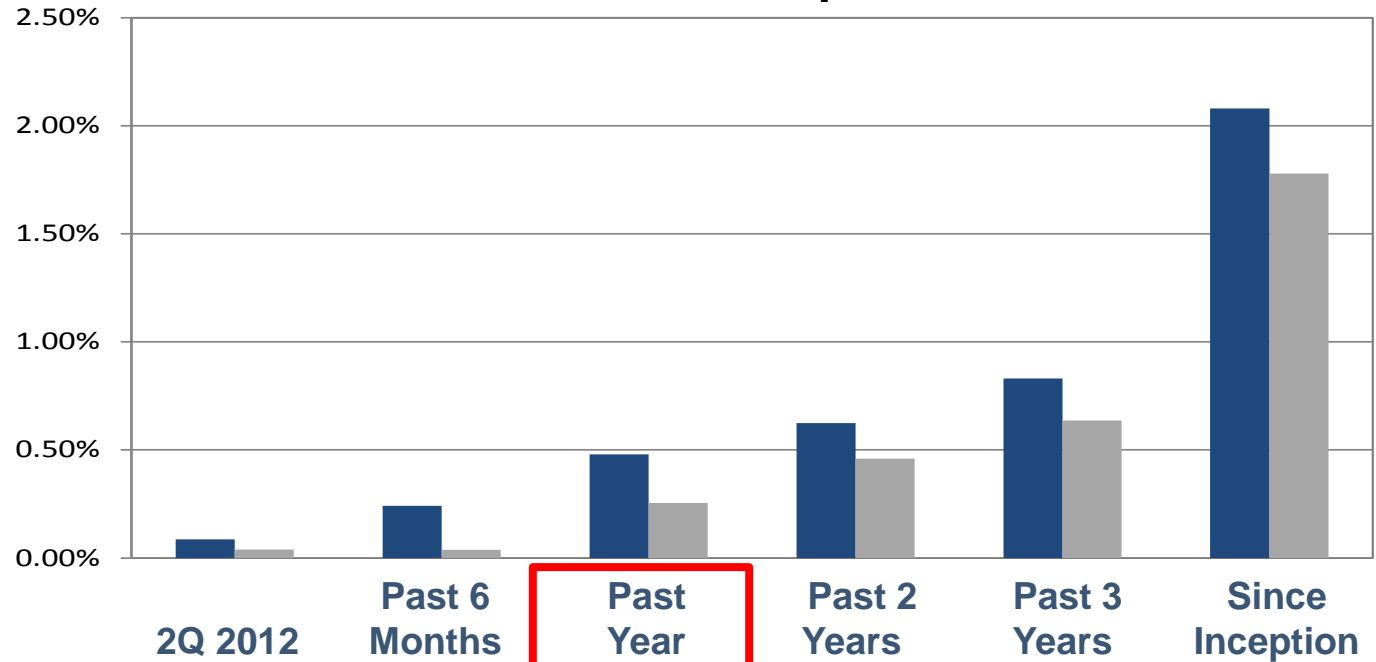
**As of 6/30/2011**



# Working Cash Reserve Portfolio *(as of 6/30/2012)*

- Total value: \$62,917,161
- Reserve fund portfolio
- One-year duration benchmark with 20% maturing in less than one year as per CCC's investment policy
- The portfolio has returned 0.48% for the past fiscal year, exceeding the 1-year Treasury index benchmark by 0.23% (see red box)

## Total Return Comparison



	2Q 2012	Past 6 Months	Past Year	Past 2 Years	Past 3 Years	Since Inception
<b>Working Cash Portfolio</b>	<b>0.086%</b>	<b>0.242%</b>	<b>0.479%</b>	<b>0.624%</b>	<b>0.831%</b>	<b>2.080%</b>
<b>ML 1-Year U.S. Treasury Index</b>	<b>0.039%</b>	<b>0.038%</b>	<b>0.255%</b>	<b>0.460%</b>	<b>0.636%</b>	<b>1.779%</b>

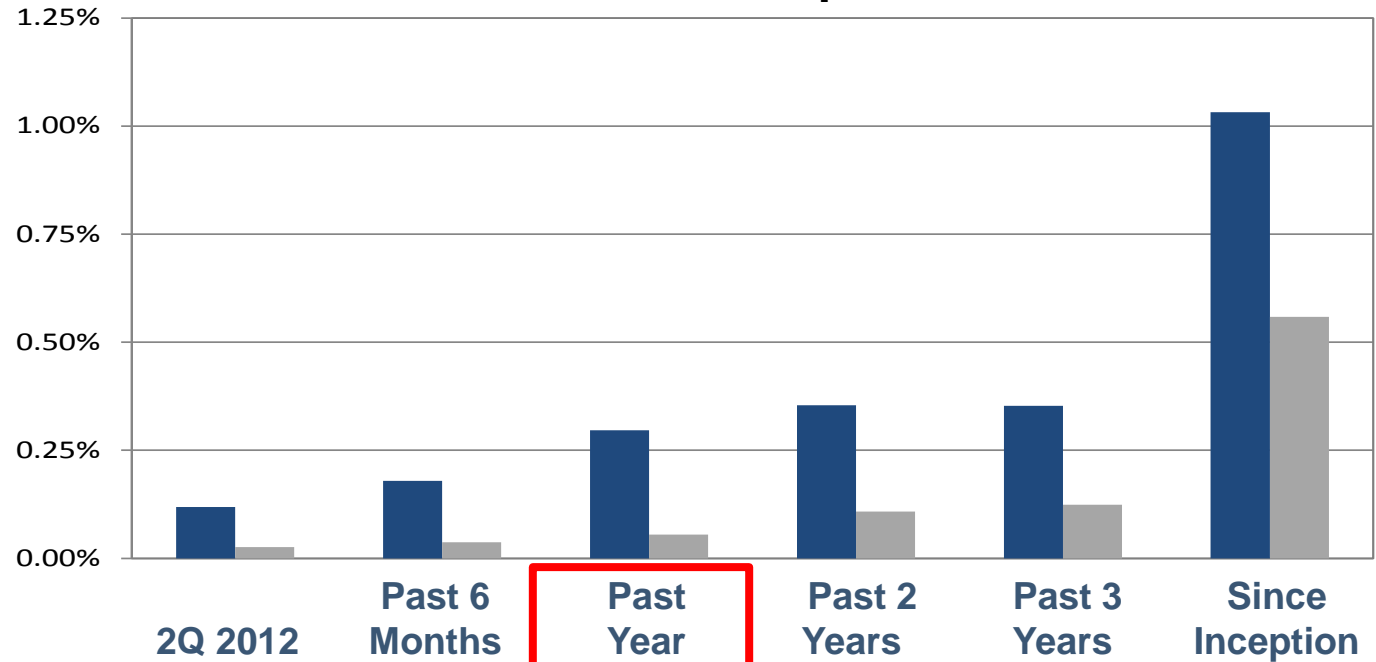
*\*Notes:*

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Bank of America / Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Includes money market fund/cash balances in performance and duration calculations.
4. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than 1 year are presented on an annualized basis.

# Short-Term Operating Portfolio *(as of 6/30/2012)*

- Total short-term portfolio value: \$85,517,080 plus \$74,274,388 in cash and/or money market funds
- Portfolio has a 3-month duration and currently meets the needs of CCC's short-term operating expenses, i.e., payroll, accounts payable, etc.
- The portfolio has returned 0.30% for the past fiscal year, exceeding the 3-month Treasury index benchmark by 0.24% (see red box)

## Total Return Comparison



	2Q 2012	Past 6 Months	Past Year	Past 2 Years	Past 3 Years	Since Inception
<b>Short-Term Operating Portfolio</b>	<b>0.119%</b>	<b>0.179%</b>	<b>0.296%</b>	<b>0.354%</b>	<b>0.353%</b>	<b>1.032%</b>
<b>ML 3-Month U.S. Treasury Index</b>	<b>0.026%</b>	<b>0.037%</b>	<b>0.055%</b>	<b>0.108%</b>	<b>0.124%</b>	<b>0.559%</b>

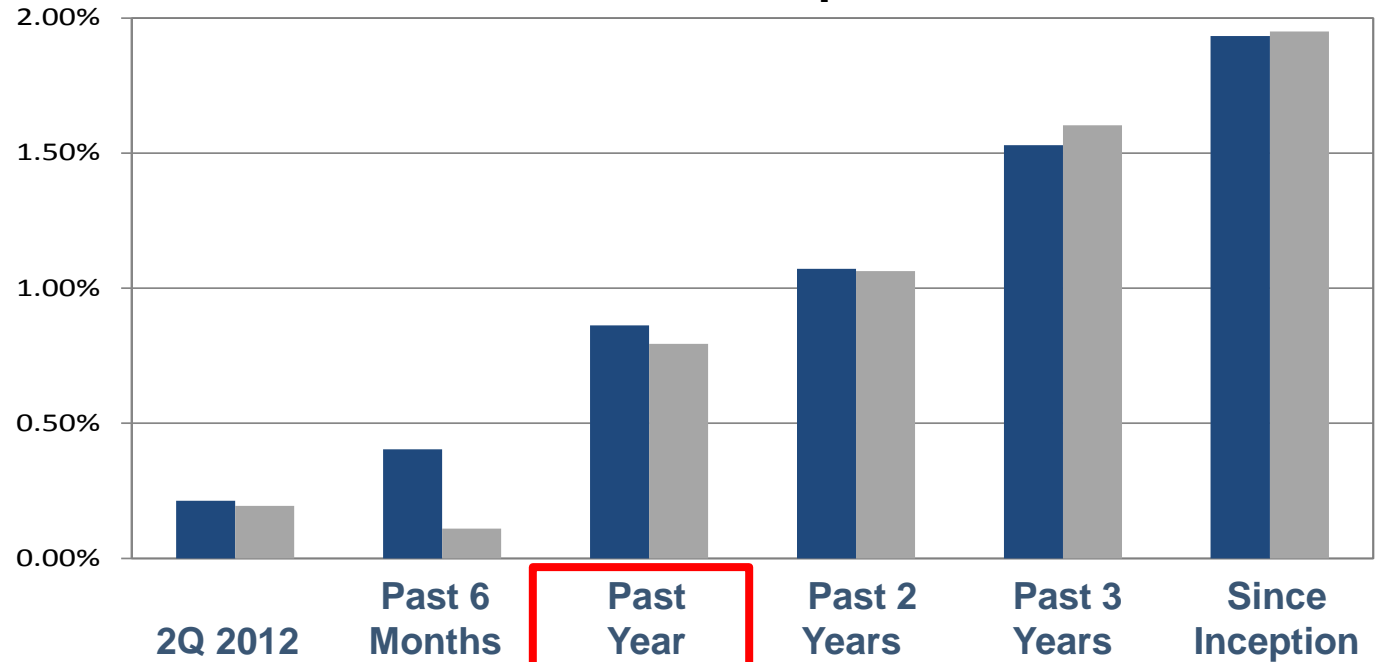
*\*Notes:*

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
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# OPEB “Retiree Fund” Portfolio (as of 6/30/2012)

- Total value: \$27,831,283
- Funds set aside for Other Post Employment Benefit liabilities, primarily retiree healthcare
- Current duration for the benchmark and the portfolio is ~1.8 years
- The portfolio has returned 0.86% for the past fiscal year, exceeding the 1 – 3 year Treasury index benchmark by 0.07% (see red box)

## Total Return Comparison



	2Q 2012	Past 6 Months	Past Year	Past 2 Years	Past 3 Years	Since Inception
<b>OPEB Portfolio</b>	<b>0.213%</b>	<b>0.404%</b>	<b>0.862%</b>	<b>1.072%</b>	<b>1.530%</b>	<b>1.934%</b>
<b>ML 1-3 Year U.S. Treasury Index</b>	<b>0.194%</b>	<b>0.110%</b>	<b>0.794%</b>	<b>1.063%</b>	<b>1.603%</b>	<b>1.951%</b>

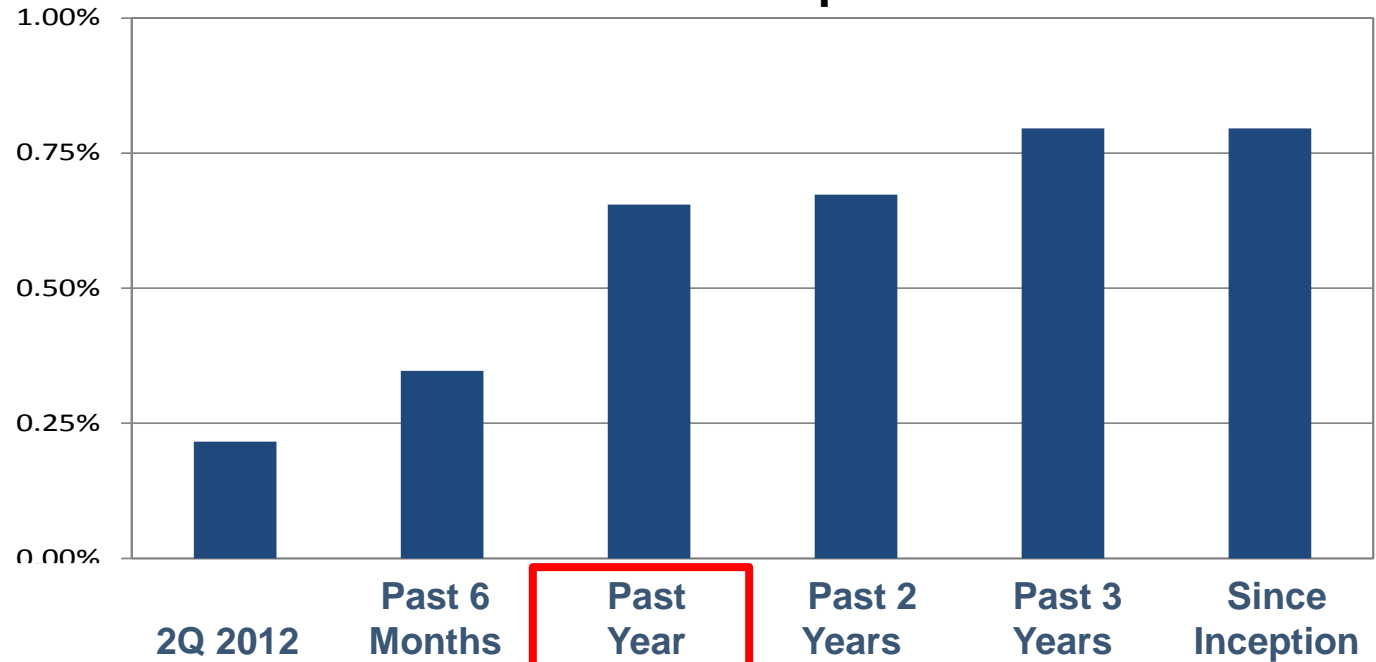
*\*Notes:*

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute’s Global Investment Performance Standards (GIPS).
2. Bank of America / Merrill Lynch Indices provided by Bloomberg Financial Markets.
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# Capital Improvement Projects Portfolio (as of 6/30/2012)

- Total value: \$56,543,016
- Funds that have been set aside to support the capital improvement program that the CCC is currently undertaking to benefit all of its students
- Current duration for the portfolio is ~1.4 years
- The portfolio has returned 0.66% for the past year

## Total Return Comparison



OPEB Portfolio	2Q 2012	Past 6 Months	Past Year	Past 2 Years	Past 3 Years	Since Inception
	0.216%	0.347%	0.655%	0.673%	0.796%	0.796%

**\*Notes:**

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3. Includes money market fund/cash balances in performance and duration calculations.
4. Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than 1 year are presented on an annualized basis.



# Recommended Investment Policy Changes

1. Adding municipal bonds as a permitted investment. Why?
  - Taxable municipal bonds can offer higher yields and also provide diversification
  - PFM would only recommend high-quality and highly-rated municipal bonds
  - They are allowed by the Illinois Public Funds Investment Act
  - Replaces the declining availability of U.S. Federal Agency securities
  - There are other Chicagoland governmental entities that allow for municipal bonds in their investment policies, including: the Chicago Housing Authority, the Chicago Park District, Chicago Public Schools, the City of Chicago, Cook County, and the Metropolitan Water Reclamation District of Greater Chicago
  
2. Eliminate the requirement of having at least 20% of the Working Cash portfolio mature in less than one year
  - Removing this restriction will allow for the Working Cash portfolio to be managed longer and will allow for the extension of its duration strategy

# Appendix

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# Comparison of the CCC Investment Policy with Illinois State Statutes

<u>Authorized Investments</u>	Purchase Restrictions	
	<i>Illinois Public Funds Investment Act</i>	<i>City Colleges of Chicago</i>
<b>Government Securities (U.S. Treasuries &amp; Federal Agencies)</b>	<ul style="list-style-type: none"> <li>No limits</li> </ul>	<ul style="list-style-type: none"> <li>3-year maturity limit</li> </ul>
<b>Bank Deposits (CDs)</b>	<ul style="list-style-type: none"> <li>No limits</li> </ul>	<ul style="list-style-type: none"> <li>3-year maturity limit</li> <li>Max of 50% of total portfolio</li> </ul>
<b>Commercial Paper</b>	<ul style="list-style-type: none"> <li>270-day maturity limit</li> <li>Rated tier-3 or better</li> <li>Max of 33% of total portfolio</li> </ul>	<ul style="list-style-type: none"> <li>270-day maturity limit</li> <li>Rated tier-1 or better</li> <li>Max of 33% of total portfolio with issuer limit of 25% of total CP position</li> </ul>
<b>Money Market Mutual Funds</b>	<ul style="list-style-type: none"> <li>No limits</li> </ul>	<ul style="list-style-type: none"> <li>No limits</li> </ul>
<b>Municipal Securities*</b>	<ul style="list-style-type: none"> <li>Rated tier-4 or higher</li> </ul>	<ul style="list-style-type: none"> <li>N/A*</li> </ul>
<b>Repurchase Agreements</b>	<ul style="list-style-type: none"> <li>330-day maturity limit</li> </ul>	<ul style="list-style-type: none"> <li>330-day maturity limit</li> <li>Max of 25% of total portfolio</li> </ul>

\* Recommendation pending to amend the CCC's investment policy to allow for municipal securities rated tier-3 or higher with a maximum allocation of 25% of the total portfolio

# Disclaimer

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