



**Annual Investment Committee Report  
For the Year Ending  
September 30, 2008**

**Prepared for**

**City Commission**

**Lou Ann R. Palmer, Mayor  
Kenneth Shelin, Vice Mayor  
Kelly Kirschner, Commissioner  
Fredd "Glossie" Atkins, Commissioner  
Richard Clapp, Commissioner**

**Charter Officials**

**Robert J. Bartolotta, City Manager  
Billy E. Robinson, City Auditor and Clerk  
Robert M. Fournier, City Attorney**

**Prepared by**

**Christopher H. Lyons, Chair  
Robert J. Bartolotta  
Billy E. Robinson  
Mark Hostetler**

**December 15, 2008**



# City of Sarasota Annual Investment Report

**Christopher H. Lyons, C.P.A., C.G.F.O., C.P.F.O.**

**Finance Director**

**September 2008**

**Mark Hostetler, Funds & Investment Manager**

## Portfolio Strategy

The Investment Policy was established by ordinance in 2001 and stresses safety of capital as the highest priority. To ensure this safety and the protection of the public's assets, the weighted average duration of principal return for the portfolio shall approximate two years. The portfolio consists of securities that strive to maximize the return on investments by actively managing and diversifying into a wide range of securities. The portfolio is structured so as to provide sufficient liquidity to pay current obligations. A variety of short-term investments and non-subprime adjustable rate mortgage securities paying principal and interest monthly is the strategy used to provide an adequate level of liquidity and rate of return. The portfolio statistics and composition chart below support the policy guidelines.

### Annual Activity

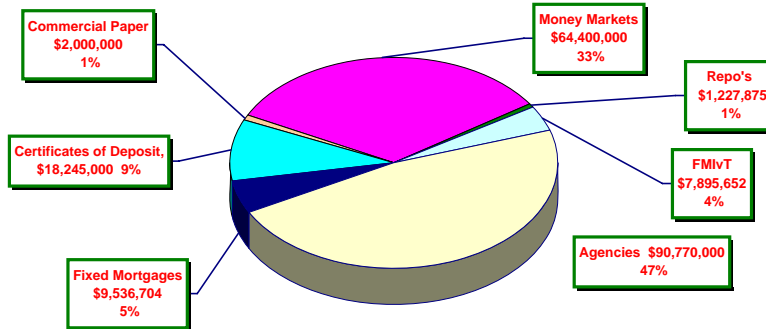
**Maturities/Calls/Sales:**

Com. Paper \$9.2m @ 4.17% (8)  
 Agencies \$107.2m @ 5.18% (96)  
 Treasuries \$50.0m @ 6.63% (29)  
 Cert. of Dep. \$2.0m @ 4.47% (3)

**Purchases:**

Com. Paper \$11.2m @ 3.99% (10)  
 Agencies \$100.0m @ 4.03% (100)  
 Fix Mtg. \$9.85m @ 5.21% (11)  
 Cert. Dep. \$20.3m @ 3.63% (69)

### Portfolio Composition



Weighted avg. Maturity = 2.21 yrs

SBA = -.0001% OR \$25,898

### Portfolio Statistics by Quarter

	Sept. 2008	June 2008	March 2008	Dec. 2007	Sept. 2007	June 2007	Mar. 2007
Ending Portfolio Balance at Par	\$194.1m	\$203.2m	\$206.2m	\$199.9m	\$179.7m	\$141.9m	\$148.1m
End Portfolio Market Value	\$193.7m	\$202.3m	\$207.0m	\$200.2m	\$179.5m	\$141.1m	\$147.4m
Yield Based Upon Cost	3.27%	3.19%	3.32%	4.27%	4.50%	4.82%	4.50%
Weighted Aver. Maturity	2.21yrs.	2.09 yrs.	1.73 yrs.	1.21 yrs.	1.45 yrs.	1.15 yrs.	1.9 yrs

### Portfolio Analysis by Quarter

	Sep-08	Jun-08	Mar-08	Dec-07
Month-End Portfolio Balance at Par	\$194,101,129	\$203,287,401	\$206,189,892	\$199,997,569
Yield Based Upon Cost	3.27%	3.19%	3.32%	4.27%
Investment Earnings per Current Quarter	\$1,332,512	\$1,514,362	\$1,932,925	\$2,049,551
Market Value Adjustment per Current Quarter	\$635,355	-\$1,691,900	\$464,226	\$444,404
Investment Earnings plus Mrkt. Val. Adjmt.	\$1,967,867	-\$177,538	\$2,397,151	\$2,493,955

**Note: The Annual Investment Report was delayed to permit a more comprehensive presentation of economic data and to highlight the financial impact on the City's Portfolio resulting from this unprecedented global economic crises. The City's Portfolio balance at cost as of November 30, 2008 was \$218,533,876 with a Market Value of \$219,074,123 resulting in a \$540,247 paper profit.**

**Economic Data - Quarter in Review**

- The fed funds rate closed at 4.25%, down 1.00% this year.
- Crude oil prices were up 57% this year, gaining \$35 per barrel and ending the year at \$96 per barrel.
- Gold prices were up 24%, closing at \$838, a 27 year high.
- Treasury yields fell sharply, the first time since 2003. The 2-year treasury dropped 1.76% ending at 3.04%.
- Stock Market returns:
  - Dow Jones up 6.4%
  - S&P 500 up 3.5%
  - Nasdaq up 9.8%

**Important News - Quarter in Review**

- The subprime mortgage crisis hit this summer with record foreclosures due to falling home prices and slowing home sales.
- The SBA temporarily froze the Local Government Investment Pool after defaulted securities lead to heavy withdrawals.
- Most of the major banks and brokerage firms posted large losses due to the subprime mortgage meltdown.
- Countrywide, the largest mortgage originator, lost over half its value due to the subprime crisis and is flirting with bankruptcy.
- Consumer prices and the core rate of inflation were up approximately 4.0% and 2.3% respectively.

**Economic Data - Quarter in Review**

- Consumers fell behind on loans, the highest level in 15 years.
- The Federal Reserve cut the fed funds rate by 2.0% in the quarter to 2.25%, a total of 3.0% since September 18, 2007.
- The Fed raised the prospect of a U.S. recession this year.
- U.S. employers lost 340,000 jobs this quarter. This was the 3rd consecutive monthly decline.
- Stock Market 1st quarter returns:
  - Dow Jones down 7.6%
  - S&P 500 down 9.9%
  - Nasdaq down 14.0%

**Important News - Quarter in Review**

- The credit market turmoil poses the most severe crisis for banks in 30 years, surpassing Black Monday in October 1987.
- Bear Stearns shares plummeted 90% since January, to \$10 as the Fed and JPMorgan Chase rescued the 85 year-old firm.
- Crude oil prices continued climbing at a record pace, reaching \$109 per barrel on March 13. Diesel is up 42% from a year ago.
- SLM Corp., the largest U.S. educational lender, had its long-term credit rating cut by Moody's to Baa2, 2 levels above junk status.
- Agency mortgage-backed bond spreads over U.S. Treasury yields reached the highest level since 1986.

**Economic Data - Quarter in Review**

- Oil prices rose to a record \$140 per barrel, up 9.8%.
- U.S. employers lost 654,000 jobs this quarter, leading to the 6th consecutive monthly decline.
- The Dow stock average lost 1,288 points or 10.2%.
- The Federal Reserve left the fed funds rate at 2.0%, stopping the string of rate cuts that started September 18, 2007.
- Consumer confidence dropped to the lowest level in 16 years as home prices fell the most on record.
- Prices paid to U.S. producers (PPI) increased 1.4% and consumer prices (CPI) increased 0.6%.

**Important News - Quarter in Review**

- The November Presidential election is set, Sen. Barack Obama, Democrat, will face Sen. John McCain, Republican.
- Bank of America completed its purchase of Countywide Financial Corp., for \$2.5 billion less than originally planned.
- Billionaire investor Eli Broad said of the U.S. economy, "This is worse than any recession we've had since World War II.
- Two former Bear Stearns hedge-fund managers were arrested and charged with securities, wire and mail fraud.
- Starbucks Corp., the worlds largest chain of coffee shops, plans to close 600 U.S. stores and eliminate as many as 12,000 jobs.

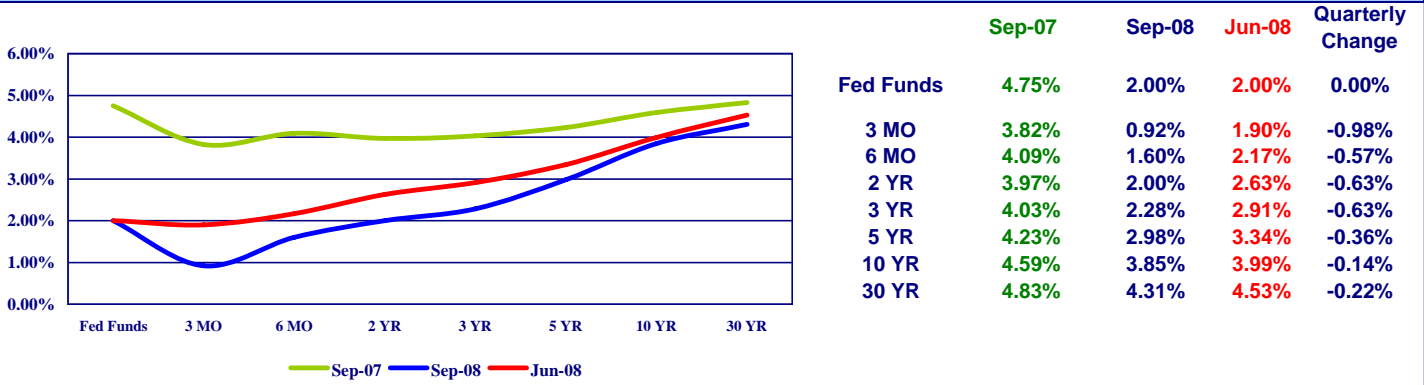
**Economic Data - Quarter in Review**

- Crude oil prices were down 9.79%, slowing world economy.
- U.S. employers lost 1,105,000 jobs in the quarter, the 9th consecutive monthly decline.
- The Dow lost 778 points on the 29th, down 5.78% this month.
- Prices paid to U.S. producers (PPI) decreased 0.4% and consumer prices (CPI) no change 0.0%.
- Foreclosures accelerated to the fastest in three decades with California leading the way, home prices down 41%.
- Industrial production fell by the most in 34 years, the credit crunch, hurricanes and airlines strike leading the downturn.

**Important News - Quarter in Review**

- The U.S. Treasury took over mortgage giants Fannie Mae and Freddie Mac placing them into government conservatorship.
- Lehman Brothers, a 158- year-old firm and fourth largest investment bank, filed for the largest bankruptcy in history.
- Washington Mutual was seized by regulators making it the largest bank failure in history, then was sold to J.P. Morgan Chase.
- AIG, one of the world's largest insurers, received a \$85 billion bailout loan from the Fed after they refused to bailout Lehman.
- Merrill Lynch and Wachovia were sold as their stock tumbled after the \$700 billion TARP rescue failed to pass in the House.

### U.S. Treasury Yield Curve



### Portfolio Yield Comparison

