



Judicial Council of California . Administrative Office of the Courts

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on: January 17, 2013

Title	Agenda Item Type
Trial Courts: Quarterly Investment Report for Third Quarter of 2012	Information Only
Submitted by	Date of Report
Administrative Office of the Courts Zlatko R. Theodorovic, Chief Financial Officer and Director, Fiscal Services Office Judicial and Court Administrative Services Division	November 16, 2012
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Executive Summary

This *Trial Court Quarterly Investment Report* provides the financial results for the funds invested by the Administrative Office of the Courts (AOC) on behalf of the trial courts as part of the judicial branch treasury program. This report is submitted under the *Resolutions Regarding Investment Activities for the Trial Courts*, approved by the Judicial Council on February 27, 2004. This report covers the period of July 1, 2012, through September 30, 2012.

Previous Council Action

On February 27, 2004, the Judicial Council approved several resolutions regarding investment activities for the trial courts. The resolutions direct that the AOC develop an investment program for the trial courts, name the director of the AOC Finance Division¹ as the treasurer of invested trial court funds, and authorize the investment of trial court funds into the State of California's Local Agency Investment Fund (LAIF); the Bank of America, N.A.; investment funds; or other investments as approved by the Administrative Director of the Courts. They also provide for

¹ Effective October 1, 2012, the AOC Finance Division has been renamed the Fiscal Services Office and is part of the Judicial and Court Administrative Services Division.

quarterly reporting of investment results to the Judicial Council, the Administrative Director of the Courts, and the manager of the AOC’s Internal Audit Services by the director of the AOC Finance Division.

On June 1, 2009, the Judicial Council’s Executive and Planning Committee, acting on behalf of the Judicial Council, approved the investment of trial court monies in any share class of the two previously approved money market funds—the Bank of America Cash Reserves Fund (formerly Columbia Cash Reserves Fund) and the Bank of America Treasury Reserves Fund (formerly Columbia Treasury Reserves Fund), and approved the addition of another money market fund—the Bank of America Government Reserves Fund (formerly Columbia Government Reserves Fund).

Summary of Findings

For purposes of the chart below, CRCF is the capital share class of the Bank of America Cash Reserves money market fund, LAIF is the Local Agency Investment Fund, and PFIC is the Bank of America Public Funds Interest Checking accounts.

Funds held in the judicial branch treasury: Total investment portfolio

As of the close of business on September 30, 2012, total investment balances held by the trial courts purchased from bank accounts directly managed by the AOC Treasury Services Unit of the Finance Division were as follows:

Investment Description	CRCF	LAIF	PFIC	Total
All dollar amounts are reported in thousands (\$000’s)				
<u>Section A – Book Values</u>				
Beginning Balance – 07/01/12	\$ 153,604	\$ 319,705	\$ 135,521	\$ 608,830
Net Purchases /(Sales) ²	\$ (6,095)	\$ (49,065)	\$ (5,846)	\$ (61,006)
Interest Paid ³	\$ 52	\$ 296	\$ 83	\$ 431
Total Change	\$ (6,043)	\$ (48,769)	\$ (5,763)	\$ (60,575)
Ending Balance – 09/30/12	\$ 147,561	\$ 270,936	\$ 129,758	\$ 548,255
<u>Section B – Fair Values</u>				
Ending Balance – 09/30/12	\$ 147,562	\$ 271,292	\$ 129,759	\$ 548,613
Net Unrealized Gain/(Loss) ⁴ in Fair Value – 09/30/12	\$ 0	\$ 356	\$ 0	\$ 356

² “Net Purchase/(Sales)” is the net amount of court investment principal purchases and sales completed during the quarterly period.

³ “Interest Paid” is the total amount of interest paid to the investment account during the quarterly period, and which as a result is included in the Ending Balance.

⁴ “Net Unrealized Gain/(Loss)” is the difference between the investment balance’s book value and its fair value at the end of the period. The net gain or loss is “unrealized” as the valuation at fair value is only for assets held by the fund at the end of the period. This Net Unrealized Gain/(Loss) would be “realized” or become an actual gain or loss

Investment Description	CRCF	LAIF	PFIC	Total
Ending Balance Plus Unpaid Interest Earned ⁵ – 09/30/12	\$ 147,562	\$ 271,539	\$ 129,760	\$ 548,861
<u>Section C – Earnings and Statistics</u>				
Interest Earned ⁶	\$ 52	\$ 247	\$ 84	\$ 383
Unpaid Interest Earned ⁷	\$ 0	\$ 247	\$ 1	\$ 248
Average Yield ⁸	0.16%	0.35%	0.25%	0.27%
Dollar-Weighted Maturity (Days)	53	242	N/A	134
Credit Quality	First Tier ⁹	GC 16430 ¹⁰	N/A	
Percentage of Investment Portfolio ¹¹	26.91%	49.42%	23.67%	100.00%

The ratio of each investment’s fair value to its book value (Fair Value Factor) as of September 30, 2012, was as follows:

CRCF 1.000000000;
LAIF 1.001314072; and
PFIC 1.000000000.

The Fair Value Factor is 1.000 for CRCF because all holdings in CRCF are valued at fair value daily, and fair value is the price for all daily redemptions and reinvestment transactions. Since LAIF’s operating rules permit the redemption, at any time, of all or a portion of any participating court’s LAIF balance at its original purchase price, the court’s redemption price is not affected by unrealized gains or losses.

Section A of the table above provides the investment balances and activity for the period at book value or original cost plus or minus the straight-line amortization of any applicable discount or premium.

only in the event that all participants’ holdings in each portfolio were liquidated by the end of the period. *Realized* gains and losses are included in the Average Yield of the investment for the period.

⁵ “Ending Balance Plus Unpaid Interest Earned” is the Ending Balance at fair value plus Interest Earned that is unpaid as of the end of the period. This represents the liquidation value including unpaid Interest Earned only in the event all participants’ holdings in each portfolio were liquidated at the end of the period.

⁶ “Interest Earned” is the total amount of interest earned during the quarterly reporting period.

⁷ “Unpaid Interest Earned” is the amount of interest earned during the period that is unpaid as of the end of the quarterly reporting period.

⁸ “Average Yield” is the simple average of the 30-day yields for each calendar month during the period, including any realized gains and losses, net of the investment’s operating expenses. The Total Average Yield is a dollar weighted average of the investment components.

⁹ First Tier money market debt securities are money market debt securities that receive a short-term rating from a Nationally Recognized Statistical Rating Organization in the highest short-term rating category for debt obligations.

¹⁰ LAIF may only invest the money of the fund in debt obligations as prescribed in Government Code section 16430.

¹¹ The portfolio balance percentages are calculated using the book values at the end of the quarterly period.

Section B provides the investment balances at their fair value at the end of the period. “Fair value” is defined as the value at which an asset could be bought or sold in a current transaction between willing parties, other than in a liquidation.

Section C provides the investment earnings, the dollar-weighted average maturity, the credit quality, and each investment’s percentage of the total investment portfolio.

These investment balances presented in the table include the combined balances of both trial court operating funds and agency funds.¹²

Investment portfolio components

CRCF. The CRCF is an overnight money market mutual fund registered with the Securities and Exchange Commission under the Federal Investment Company Act of 1940 and operated in accordance with Title 17, Code of Federal Regulations 270.2a-7 (17 C.F.R. 270.2a-7). Investment purchases and redemptions of capital shares are transacted when Bank of America’s system reviews the account balance daily at 1:30 p.m. PST and invests or returns funds as appropriate to maintain the bank account’s established target balance. A purchase transaction takes place if the cash balance in the account exceeds the target balance, and a redemption transaction takes place when the cash balance is less than the target balance.

In accordance with 17 C.F.R. 270.2a-7, the CRCF must maintain a dollar-weighted average maturity consistent with its objective of maintaining a stable net asset value per share, not to exceed 60 days (formerly 90 days), and must contain only “First Tier” money market debt obligations receiving a short-term rating from a Nationally Recognized Statistical Rating Organization in the highest short-term rating category for debt obligations.

CRCF invests only in high-quality money market instruments, which include bank obligations (including certificates of deposit and time deposits issued by domestic and foreign banks or their subsidiaries or branches), commercial paper, corporate bonds, extendible commercial notes, asset-backed securities, funding agreements, municipal securities, repurchase agreements, and other high-quality short-term obligations. As of September 30, 2012, the CRCF portfolio composition was as follows:

¹² Agency funds are balances held in trust pending resolution of civil or criminal court proceedings, and funds held on behalf of the State and local agencies prior to their statutory distribution. Agency funds include the following categories: civil trust, criminal bail trust, Uniform Civil Fees, and criminal fines, fees, and penalties.

**CRCF Portfolio Composition
As of September 30, 2012**

Commercial paper	19.40%
Asset-backed commercial paper	18.61%
Repurchase obligations	18.56%
U.S. certificates of deposit	18.48%
Variable-rate demand notes	9.45%
Time deposits	6.62%
Floating rate notes	3.95%
U.S. government and agency floating-rate obligations	2.76%
Euro CDs	0.98%
Other	0.61%
U.S. treasuries	0.57%

Bank of America has determined that iMoneyNet’s Prime Category Average (iMoneyNet) money market mutual fund is a good proxy of the CRCF portfolio composition and performance.¹³

LAIF. LAIF is a money market fund held and managed by the State Treasurer’s Office and is part of the Pooled Money Investment Account (PMIA) (see Attachment A). The PMIA is the short-term investment pool for the State of California’s General Fund; special funds held by State agencies; and monies deposited by cities, counties, and other entities into the LAIF. LAIF is a voluntary program created by statute; it began in 1977 as an investment alternative for California’s local governments and special districts. The enabling statute for the LAIF is section 16429.1 et seq. of the Government Code.

By law, PMIA moneys can be invested only in the following categories: U.S. government securities; securities of federally sponsored agencies; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions; prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker’s acceptances; negotiable certificates of deposit; and loans to various bond funds.

LAIF’s primary objectives are to maintain the safety of principal and provide daily liquidity. These objectives are met by investing in high credit quality debt instruments, maintaining an

¹³ The most recent monthly fact sheet for the Bank of America Cash Reserves Capital Fund can be found at the following URL at Bank of America’s website:
www.bofacapital.com/Publish/Content/application/pdf/GWMOL/CashReserves_Cap_Factsheet.pdf.

average maturity between 120 days and 18 months, and providing daily availability of the entire invested balance. LAIF's investment yield is consistent with these very conservative objectives.

The LAIF Performance Report, including the portfolio's composition as of September 30, 2012, as reported by the State Treasurer's Office, is attached. The State Treasurer's Office has not identified a money market fund suitable for benchmark comparison to LAIF.

PFIC. Public Funds Interest Checking (PFIC) accounts are Bank of America interest-bearing checking accounts that earn interest at a rate of 0.25 percent per annum as of September 2011, down from 0.30 percent per annum previously. PFIC accounts are insured by the Federal Deposit Insurance Corporation (FDIC) and are fully collateralized at 110 percent of PFIC balances with securities (per Government Code section 53651), purchased by Bank of America, and held in a collateral pool pledged to public deposits. Since PFIC accounts are FDIC insured, they are subject to FDIC insurance assessments of 0.13 percent per annum.¹⁴

Funds held outside the judicial branch treasury

As of June 30, 2012, 34 trial courts maintained \$579 million in total operating and agency fund investments outside of the judicial branch treasury as reported on Schedule A: Trial Court Investments Held Outside of the Judicial Branch Treasury (see Attachment B). Funds held outside of the judicial branch treasury are invested with the courts' respective counties or with other financial institutions.

The investment balances reported on Schedule A are presented as reported by the trial courts without independent verification from the custodians holding the investments on behalf of the trial courts.

Schedule A is prepared from summary information gathered annually, as of June 30 of each year, to comply with the State Controller's Office requirements for the trial courts' Consolidated Annual Financial Report, and made available only in time for this report.

Attachments

1. Attachment A: LAIF Performance Report
2. Attachment B: Schedule A. Trial Court Investments Held Outside of the Judicial Branch Treasury

¹⁴ The FDIC assessment fee is the direct result of maintaining PFIC balances on deposit with Bank of America. FDIC fees are assessed on the average PFIC balance for the period.