



## Judicial Council of California . Administrative Office of the Courts

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# REPORT TO THE JUDICIAL COUNCIL

For business meeting on June 27, 2014

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Title	Agenda Item Type
Trial Courts: Quarterly Investment Report for First Quarter of 2014	Information Only
Submitted by	Date of Report
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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 on behalf of the trial courts as part of the judicial branch treasury program. The report is submitted under agenda item 10, Resolutions Regarding Investment Activities for the Trial Courts, approved by the Judicial Council on February 27, 2004, and the report covers the period of January 1, 2014, through March 31, 2014.

### Previous Council Action

On February 27, 2004, the Judicial Council approved several resolutions on investment activities for the trial courts. The resolutions direct that the Administrative Office of the Courts (AOC) develop an investment program for the trial courts, name the director of the AOC Finance Division<sup>1</sup> 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 quarterly reporting of investment results by the

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<sup>1</sup> Effective October 1, 2012, the AOC Finance Division was renamed the Fiscal Services Office and is part of the Judicial and Court Administrative Services Division.

director of the AOC Fiscal Services Office to the Judicial Council, the Administrative Director of the Courts, and the senior manager of the AOC’s Internal Audit Services office.<sup>2</sup>

On June 1, 2009, the Judicial Council’s Executive and Planning Committee, acting on behalf of the 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 (CRF; formerly Columbia Cash Reserves Fund) and the Bank of America Treasury Reserves Fund (formerly Columbia Treasury Reserves Fund)—and the addition of another money market fund, the Bank of America Government Reserves Fund (formerly Columbia Government Reserves Fund).

### Summary of Findings

In table 1, CRF 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 March 31, 2014, total investment balances held by the trial courts purchased from bank accounts directly managed by the AOC’s Trust and Treasury Services unit of the Fiscal Services Office were as specified in table 1.

**Table 1. Trial Court Investment Balances Managed by the Fiscal Services Office**

Investment Description	CRF	LAIF	PFIC	Total
	All dollar amounts are reported in thousands (\$000)			
<b>Section A, Book Values</b>				
Beginning Balance – 01/01/14	\$136,286	\$380,757	\$139,057	<b>\$656,100</b>
Net Purchases/(Sales) <sup>3</sup>	(4,024)	(137,791)	9,172	<b>(132,643)</b>
Interest Paid <sup>4</sup>	8	284	89	<b>381</b>
Total Change	(4,016)	(137,507)	9,261	<b>(132,262)</b>
Ending Balance – 03/31/14	\$132,270	\$243,250	\$148,318	<b>\$523,838</b>

<sup>2</sup> As of February 2013, the AOC’s Internal Audit Services unit is no longer part of the Fiscal Services Office and is now a separate office in the Judicial Council and Court Leadership Services Division.

<sup>3</sup> “Net Purchases/(Sales)” is the net amount of court investment principal purchases and sales completed during the quarterly period.

<sup>4</sup> “Interest Paid” is the total amount of interest paid to the investment account during the quarterly period and is included in the Ending Balance.

Investment Description (cont.)	CRF	LAIF	PFIC	Total
<b>Section B, Fair Values</b>				
Ending Balance – 03/31/14	\$132,270	\$243,327	\$148,318	<b>\$523,915</b>
Net Unrealized Gain/(Loss) <sup>5</sup> in Fair Value – 03/31/14	0	77	0	<b>77</b>
Ending Balance Plus Unpaid Interest Earned <sup>6</sup> – 03/31/14	\$132,270	\$243,515	\$148,319	<b>\$524,104</b>
<b>Section C, Earnings and Statistics</b>				
Interest Earned <sup>7</sup>	\$8	\$188	\$90	<b>\$286</b>
Unpaid Interest Earned <sup>8</sup>	\$0	\$188	\$1	<b>\$189</b>
Average Yield <sup>9</sup>	0.03%	0.23%	0.25% <sup>10</sup>	<b>0.18%</b>
Dollar-Weighted Maturity (Days)	47	185	N/A	<b>98</b>
Credit Quality	First Tier <sup>11</sup>	GC 16430 <sup>12</sup>	N/A	
Percentage of Investment Portfolio <sup>13</sup>	25.25%	46.44%	28.31%	<b>100.00%</b>

The ratio of each investment’s fair value to its book value (Fair Value Factor) as of March 31, 2014, was as follows:

- CRF 1.000000000
- LAIF 1.000317118
- PFIC 1.000000000

<sup>5</sup> “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” because 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 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.

<sup>6</sup> “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 figure 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.

<sup>7</sup> “Interest Earned” is the total amount of interest earned during the quarterly reporting period.

<sup>8</sup> “Unpaid Interest Earned” is the amount of interest earned during the period that is unpaid as of the end of the quarterly reporting period.

<sup>9</sup> “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.

<sup>10</sup> The interest rate earned on the Public Funds Interest Checking accounts is 0.25 percent per annum. Since PFIC account balances are FDIC insured, they are subject to FDIC insurance assessments of 0.13 percent per annum. As a result PFIC balances earn a net rate return after FDIC assessments of 0.12 percent per annum.

<sup>11</sup> “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.

<sup>12</sup> LAIF may invest the money of the fund only in debt obligations as prescribed in Government Code section 16430.

<sup>13</sup> The portfolio balance percentages are calculated using the book values at the end of the quarterly period.

The Fair Value Factor is 1.000 for CRF because all holdings in CRF are valued at fair value daily, and fair value is the price for all daily redemptions and reinvestment transactions. Because 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 table 1 provides the investment balances and activity for the period at book value or at original cost plus or minus the straight-line amortization of any applicable discount or premium.

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.

The investment balances presented in the table include the combined balances of both trial court operating funds and agency funds.<sup>14</sup>

### **Investment portfolio components**

**CRF.** The CRF 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 Commodity and Securities Exchanges, Title 17 *Code of Federal Regulations*, Pt. 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 the aforementioned Code of Federal Regulations, the CRF 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.

The CRF 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,

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<sup>14</sup> "Agency funds" are balances held in trust pending resolution of civil or criminal court proceedings as well as funds held on behalf of state and local agencies before their statutory distribution. Agency funds include the following categories: civil trust, criminal bail trust, Uniform Civil Fees, and criminal fines, fees, and penalties.

asset-backed securities, funding agreements, municipal securities, repurchase agreements, and other high-quality short-term obligations. As of March 31, 2014, the CRF portfolio composition was as shown in table 2.

**Table 2. CRF Portfolio Composition as of March 31, 2014**

<b>High-Quality Instruments</b>	<b>Percentage of Portfolio</b>
Repurchase obligations	25.35
Commercial paper	21.90
U.S. CDs	16.93
Asset-backed commercial paper	14.25
Time deposits	6.22
Other	5.95
Floating rate notes	2.43
Domestic CDs	2.37
Variable-rate demand notes	2.33
U.S. government and agency floating rate demand notes	1.34
Euro CDs	0.78
U.S. agencies	0.14

Bank of America has determined that iMoneyNet’s Prime Category Average (iMoneyNet) money market mutual fund is a good proxy of the CRF portfolio composition and performance.<sup>15</sup>

**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 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; bankers’ acceptances; negotiable certificates of deposit; and loans to various bond funds.

<sup>15</sup> The most recent monthly fact sheet for the Bank of America Cash Reserves Capital Fund is available at the following URL at Bank of America’s website:  
[www.bofacapital.com/Publish/Content/application/pdf/GWMOL/CashReserves\\_Cap\\_Factsheet.pdf](http://www.bofacapital.com/Publish/Content/application/pdf/GWMOL/CashReserves_Cap_Factsheet.pdf).

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 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 March 31, 2014, as reported by the State Treasurer's Office—is included as Attachment A. The State Treasurer's Office has not identified a money market fund suitable for benchmark comparison to LAIF.

**PFIC.** Public Funds Interest Checking accounts are Bank of America interest-bearing checking accounts that earn interest at a rate of 0.25 percent per annum. 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.<sup>16</sup>

## **Attachments**

1. Attachment A: *LAIF Performance Report*

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<sup>16</sup> 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.

**BILL LOCKYER  
TREASURER  
STATE OF CALIFORNIA**

**LOCAL AGENCY INVESTMENT FUND (LAIF)**

**PMIA Performance Report**

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
4/3/2014	0.24	0.24	197
4/4/2014	0.24	0.24	197
4/5/2014	0.24	0.24	197
4/6/2014	0.24	0.24	197
4/7/2014	0.24	0.24	196
4/8/2014	0.24	0.24	196
4/9/2014	0.24	0.24	199
4/10/2014	0.24	0.24	200
4/11/2014	0.24	0.24	200
4/12/2014	0.24	0.24	200
4/13/2014	0.24	0.24	200
4/14/2014	0.24	0.24	195
4/15/2014	0.23	0.24	195
4/16/2014	0.23	0.24	197

\*Daily yield does not reflect capital gains or losses

**LAIF Performance Report**

**Quarter Ending 03/31/14**

Apportionment Rate: 0.23%  
 Earnings Ratio: .00000631639966506  
 Fair Value Factor: 1.000317118  
 Daily: 0.23%  
 Quarter To Date: 0.24%  
 Average Life: 185

**PMIA Average Monthly Effective Yields**

**MAR 2014 0.236%**  
 FEB 2014 0.236%  
 JAN 2014 0.244%

Pooled Money Investment Account  
 Portfolio Composition  
 \$57.5 Billion  
 03/31/14

