



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

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# REPORT TO THE JUDICIAL COUNCIL

For business meeting on: June 25, 2010

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Title	Agenda Item Type
Trial Court Quarterly Investment Report as of December 31, 2009	Information Only
Submitted by	Date of Report
Administrative Office of the Courts Stephen Nash, Director Finance Division	June 21, 2010
	Contact
	Greg Keil, 415-865-7956 <a href="mailto:greg.keil@jud.ca.gov">greg.keil@jud.ca.gov</a>

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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. The period covered by this report is from October 1, 2009 through December 31, 2009.

### **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 Division as the treasurer of invested trial court funds, and authorize the investment of trial court funds into the State of California 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 to the Judicial Council, the Administrative Director of the Courts, and the manager of AOC 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 Columbia Cash Reserves Fund and Columbia Treasury Reserves Fund money market funds, and approved the addition of the Columbia Government Reserves Fund money market fund.

## Summary of Findings

For purposes of the chart below, the two share classes of the Columbia Cash Reserves money market fund used for investment are the Columbia Cash Reserves Adviser Fund (CCRAF), and the Columbia Cash Reserves Capital Fund (CCRCF). The PFIC column represents Bank of America Public Funds Interest Checking (PFIC) accounts.

### Total investment portfolio

As of the close of business on December 31, 2009, the total investment balances held by the trial courts purchased from bank accounts directly managed by the Trial Court Trust and Treasury Services unit of the AOC Finance Division were:

Investment Description	CCRAF	CCRCF	LAIF	PFIC	Total
All dollar amounts are reported in thousands (\$000's)					
<u>Section A – Book Values</u>					
Beginning Balance – 10/01/09	\$ 149,088	\$ 0	\$ 384,898	\$ 123,416	\$ <b>657,402</b>
Net Purchases/(Sales) <sup>1</sup>	\$ (149,089)	\$ 67,343	\$ (3,816)	\$ 19,882	\$ <b>(65,680)</b>
Interest Paid <sup>2</sup>	\$ 1	\$ 10	\$ 786	\$ 109	\$ <b>905</b>
Total Change	\$ (149,088)	\$ 67,352	\$ (3,030)	\$ 19,991	\$ <b>(64,775)</b>
Ending Balance – 12/31/09	\$ 0	\$ 67,352	\$ 381,868	\$ 143,407	\$ <b>592,627</b>
<u>Section B – Fair Values</u>					
Ending Balance – 12/31/09	\$ 0	\$ 67,352	\$ 382,229	\$ 143,407	\$ <b>592,989</b>
Net Unrealized Gain/(Loss) <sup>3</sup> in Fair Value – 12/31/09	\$ 0	\$ 0	\$ 362	\$ 0	\$ <b>362</b>
Ending Balance Plus Unpaid Interest Earned <sup>4</sup> – 12/31/09	\$ 0	\$ 67,352	\$ 382,830	\$ 143,408	\$ <b>593,590</b>

<sup>1</sup> “Net Purchase/(Sales)” is the net amount of court investment principal purchases and sales completed during the quarterly period.

<sup>2</sup> “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.

<sup>3</sup> “Net Unrealized Gain/(Loss)” is the difference between the investment balance’s book value and its fair value as of 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 as of the end of the period. This Net Unrealized Gain/(Loss) would only be “realized” or become an actual gain or loss in the event all participants’ holdings in each portfolio were liquidated as of the end of the period.

<u>Section C – Earnings and Statistics</u>										
Interest Earned <sup>5</sup>	\$	2	\$	10	\$	600	\$	110	\$	<b>723</b>
Unpaid Interest Earned <sup>6</sup>	\$	0	\$	0	\$	600	\$	1	\$	<b>602</b>
Average Yield <sup>7</sup>		0.00%		0.15%		0.60%		0.30%		<b>0.48%</b>
Dollar-Weighted Maturity (Days)		44		44		222		N/A		<b>148</b>
Credit Quality		First Tier <sup>8</sup>		First Tier <sup>10</sup>		GC16430 <sup>9</sup>		N/A		
Percentage of Investment Portfolio <sup>10</sup>		0.00%		11.36%		64.44%		24.20%		<b>100.00%</b>

The ratio of each investment’s fair market value to its book value (Fair Market Value Factor) as of December 31, 2009, was:

CCRAF 1.000000000;  
 CCRCF 1.000000000;  
 LAIF 1.000947825; and  
 PFIC 1.000000000.

The Fair Market Value Factor is 1.000 for CCRAF and CCRCF because all holdings in those funds are valued at fair market 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 a, or portion, of any participating court’s LAIF balance at its original purchase price, the court’s redemption price is not impacted 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.

<sup>4</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 represents the liquidation value including unpaid Interest Earned only in the event that all participants’ holdings in each portfolio were liquidated at the end of the period.

<sup>5</sup> “Interest Earned” is the total amount of interest earned during the quarterly reporting period.

<sup>6</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>7</sup> “Average Yield” is the simple average of the 30-day yields for each calendar month, net of the investment’s operating expenses for the period.

<sup>8</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>9</sup> LAIF may only invest the money of the fund in debt obligations prescribed in Government Code section 16430.

<sup>10</sup> The portfolio balance percentages are calculated using the book values as of the end of the quarterly period.

Section B provides the investment balances at their fair values as of 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 include the combined balances of both trial court operating funds and agency funds.<sup>11</sup>

## **Investment Portfolio Components**

### **Columbia Cash Reserves Adviser Fund**

As of November 30, 2009, the CCRAF overnight money market mutual fund automated sweep was discontinued for all trial court distribution, operations, and uniform civil fee (UCF) bank accounts due to its decline in yield, net of the automated sweep service fee. This investment was redirected to the Columbia Cash Reserves Capital Fund, which is a different share class of the same Columbia Cash Reserves money market mutual fund, containing the same portfolio of assets, but increasing the yield by 0.15 percent per annum. In addition to improving the yield, this change eliminated the monthly fixed fee of \$50 per account assessed on the 137 bank accounts using the bank's automated sweep service, saving \$82,200 per year. A more detailed description of the CCRCF investment is provided in the section below.

### **Columbia Cash Reserves Capital Fund**

The CCRCF is an overnight money market mutual fund registered with the Securities Exchange Commission under the Federal Investment Company Act of 1940, and operated in accordance with the Code of Federal Regulations (17 C.F.R. section 270.2a-7 (2009)). Investment purchases and redemptions of Capital Shares are transacted when Columbia Management's system reviews the account balance daily at 1 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 Code of Federal Regulations, the CCRCF must maintain a dollar-weighted average maturity consistent with its objective of maintaining a stable net asset value per share, not to exceed 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.

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<sup>11</sup> 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 before their statutory distribution. Agency funds include: civil trust, criminal bail trust, uniform civil fees and criminal fines, fees and penalties.

CCRCF 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 December 31, 2009, the CCRCF portfolio composition was:

**CCRCF Portfolio Composition  
As of December 31, 2009**

Certificates of deposit	43.70%
Asset-backed commercial paper	17.27%
Repurchase obligations	15.03%
Commercial paper	13.91%
U.S. Government and agency obligations	8.53%
Municipal bonds	0.79%
Time deposits	0.74%
Corporate bonds and notes	0.03%

Colombia Management has determined that iMoneyNet's Prime Category Average money market mutual fund is a good proxy of the CCRCF portfolio composition and performance.<sup>12</sup>

**Local Agency Investment Fund**

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). 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 Government Code section 16429.1 et seq. By law, PMIA monies can be invested only in: 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 safety of principal and provide daily liquidity. These objectives are met by investing in high quality debt instruments, maintaining an average maturity

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<sup>12</sup> The most recent monthly fact sheet for the Columbia Cash Reserves Capital Fund can be found at Columbia Management's web site:  
[http://www.bofacapital.com/NR/rdonlyres/7A525AE5-452D-4A31-836A-600C4A735929/0/CashReserves\\_Cap\\_Factsheet.pdf](http://www.bofacapital.com/NR/rdonlyres/7A525AE5-452D-4A31-836A-600C4A735929/0/CashReserves_Cap_Factsheet.pdf)

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 December 31, 2009, 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.

### **Public Funds Interest Checking**

As of June 1, 2009, the investment sweeps into the Columbia Treasury Reserves for the trial court trust accounts were discontinued and the accounts converted to Bank of America Public Funds Interest Checking accounts. The PFIC accounts earn interest at a rate of 0.30 percent per annum. The PFIC accounts are insured by the Federal Deposit Insurance Corporation (FDIC) and are fully collateralized 110 percent 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 an FDIC insurance assessments fee of 0.13 percent per annum.<sup>13</sup>

### **Attachment**

1. LAIF Performance Report

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<sup>13</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 quarter. PFIC accounts are not subject to Temporary Liquidity Guarantee Program assessment fees, which are assessments for a temporary supplemental guarantee program offered to banks by the FDIC.

# Bill Lockyer, State Treasurer

Inside the State Treasurer's Office

Local Agency Investment Fund (LAIF)



## PMIA Performance Report

Date	Daily Yield	Quarter to Date Yield	Average Maturity (in days)
12/31/2009	0.56	0.61	222
1/1/2010	0.56	0.56	222
1/2/2010	0.56	0.56	222
1/3/2010	0.56	0.56	222
1/4/2010	0.56	0.56	223
1/5/2010	0.56	0.56	224
1/6/2010	0.56	0.56	226
1/7/2010	0.56	0.56	227
1/8/2010	0.56	0.56	228
1/9/2010	0.56	0.56	228
1/10/2010	0.56	0.56	228
1/11/2010	0.57	0.56	227
1/12/2010	0.57	0.56	225
1/13/2010	0.57	0.56	229

## LAIF Performance Report

Quarter ending 12/31/2009

Apportionment Rate: 0.60%  
 Earnings Ratio: .00001657120783286  
 Fair Value Factor: 1.000947825  
 Daily: 0.56%  
 Quarter To Date: 0.61%  
 Average Life: 222

## PMIA Average Monthly Effective Yields

DEC 2009 0.569%  
 NOV 2009 0.611%  
 OCT 2009 0.646%

## Pooled Money Investment Account Portfolio Composition \$67.2 Billion 12/31/09

