



**SHARON R. BOCK**  
Clerk & Comptroller  
Palm Beach County

# Memorandum

**Date:** June 28, 2007  
**From:** J. Anthony Beard, Treasurer  
Felicia Landerman, Investment Manager  
**To:** Sharon R. Bock, Clerk & Comptroller  
L. Carter Hammer, Chief Financial Officer  
**Subject:** State of Israel Bonds

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In April 2007, the Investment Policy Committee asked the Clerk & Comptroller's office to explore the option of adding State of Israel bonds to the County Investment Policy as an authorized investment vehicle.

Recently the Florida legislature approved Senate Bill 2224, to amend Florida Statute 218.415(16) and (17) to include "rated or unrated bonds, notes and instruments backed by the full faith of Israel," as authorized investments by local governments.

The Treasury Department has researched the pros and cons of investing in Israel bonds in terms of the clearly defined investment objectives as stated in the County Investment Policy - safety of financial assets, liquidity of funds adequate for timely satisfaction of financial obligations, and earning the maximum achievable investment income given prudent safety and liquidity objectives. The political and/or social considerations of such an investment are not within the scope of this evaluation.

## **Safety**

Bonds issued by the State of Israel are rated A by the major rating agencies. While there has never been a default by the State of Israel on one of its bonds and the single A rating is considered investment grade, the bonds are rated one grade below the investment policy's requirement.

## **Liquidity**

There is no secondary trading market for Israel bonds, although this may not be a deciding factor because the amount that we would purchase is small (\$10-\$15 million) and the term is short (one year). Cash flow requirements of the County should not be adversely impacted by this investment decision, as we would be able to hold these bonds to maturity.

### **Market Rate of Return**

Currently short-term Israel bonds yield above U.S. Treasury obligations which are explicitly guaranteed by the U.S. government and rated AAA, but below U.S. government-sponsored enterprises (GSE) which are implicitly guaranteed by the U. S. government and also rated AAA. As of June 22, 2007, a one year U.S. Treasury yielded 5.05 percent, a one year GSE bullet yielded 5.25 percent and a one year “Jubilee” Israel bond yielded 5.12 percent.

On an assumed investment of \$15 million, these returns would generate the following in interest income: \$757,500 for the U.S. Treasury, \$787,500 for the GSE and \$768,000 for the Israel bond.

### **Pros**

The purchase of Israel bonds will help to sustain the growth and development of the State of Israel by providing funding in key economic sectors, which in the past have included high-tech, agriculture, transportation, communications, import/export, energy, water resources and immigration absorption.

### **Cons**

In comparison to other securities available in the market, the State of Israel bonds do not adequately compensate the investor with a liquidity risk premium, nor do they compensate the investor for increased credit risk. The Board of County Commissioners would have to amend the County Investment Policy to allow for this specific investment type and to allow the bonds to be bought through a broker/dealer with less than the required \$25 million minimum capital requirement dictated by the County Investment Policy.

As a side-note, in 2000, the County Investment Policy was amended to include USAID bonds sold through the Agency for International Development. This investment option meets the investment policy standards of safety, liquidity, and return. USAID bonds are actively traded in the secondary market, issued by the State of Israel and are fully guaranteed as to the principal and interest by the United States of America. They do not, however, provide new funding for the State of Israel. Their return as of June 22, 2007, was one to two basis points higher than that of the State of Israel bonds.