

# County of Santa Clara



## Finance Agency Controller-Treasurer Department

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June 7, 2016

Submitted by: Alan Minato  
Alan Minato, Controller-Treasurer

TO: BOARD OF TRUSTEES, SANTA CLARA COUNTY SCHOOL DISTRICTS  
BOARDS OF DIRECTORS, SANTA CLARA COUNTY SPECIAL PURPOSE DISTRICTS

FROM: EMILY HARRISON, DIRECTOR OF FINANCE *e.h.*

SUBJECT: COUNTY OF SANTA CLARA TREASURY INVESTMENT PORTFOLIO STATUS

### **RECOMMENDATION**

Receive and file the March 31, 2016 Detailed Investment Portfolio Listing.

### **DISCUSSION**

In compliance with the State of California Government Code as amended by Chapters 783 and 784, Statutes of 1995 and in compliance with County Policy, the Santa Clara County Treasury Investment Portfolio Report as of March 31, 2016 is submitted for your review and acceptance.

The attached detailed investment reports list each investment of the County Treasury Pool as well as individual reports for specific investment funds that each school district or special district has in the County Treasury. The reports include the respective purchase and maturity dates, par value, amortized cost, market value, and yield to maturity for each investment.

A summary of market value versus cost is provided below for Commingled Investments of the County Pool.

	Cost	Market Value	Increase (Decrease)	Percent
Commingled Investments	\$6,040,114,555	\$6,051,172,362	\$11,057,808	0.18%

TO: SANTA CLARA COUNTY SCHOOL DISTRICTS AND SPECIAL PURPOSE DISTRICT

The yield of the pool on March 31, 2016 was 0.83%. As a comparison, on March 31, 2016 the yield of the 6-month Treasury Bill was 0.38%. A two-year Treasury Note was .72%. The State of California Local Agency Investment Fund (LAIF) yield was 0.47%.

Attached with the current investment strategy is a schedule that lists the average weighted maturities and yield for the Commingled Treasury Pool. Charts outlining investment concentration and distribution of bond maturities are provided for the Pool. Also included is a chart showing the one-year history of the Pool along with interest rates of selected comparable instruments.

Securities are purchased with the expectation that they will generally be held to maturity. Unrealized gains or losses are not reflected in the yield calculations.

The market values of securities were taken from pricing services provided by BNYMellon, Bloomberg Analytics, dealer quotes, and an independent pricing service.

A combination of securities maturing, new revenues, and tax receipts will adequately cover the anticipated cash flow needs for the next six months. Cash flows are continually monitored and are considered paramount in the selection of securities purchased for the Pool.

If any Commingled Pool participant would like further information on this report, please let us know.

Attachment:

March 2016 Quarterly Investment Summary



# **Quarterly Investment Report**

**March 31, 2016**

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### Quarterly Investment Report

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Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian

County Executive: Jeffrey V. Smith



## Santa Clara County Commingled Pool and Segregated Investments

March 31, 2016

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$6,040,114,555	\$6,051,172,362	\$11,057,808	0.18%
Worker's Compensation	\$27,410,646	\$27,680,966	\$270,320	0.99%
Mountain View-Los Altos	\$2,021,435	\$2,021,454	\$19	0.00%
Palo Alto Unified	\$603,850	\$603,886	\$36	0.01%
Park Charter Fund	\$11,436,803	\$11,436,278	-\$524	0.00%
San Jose-Evergreen	\$19,912,077	\$20,011,796	\$99,719	0.50%
Medical Malpractice Insurance Fund (1)	\$12,893,360	\$13,033,790	\$140,430	1.09%
<b>Total</b>	<b>\$6,114,392,726</b>	<b>\$6,125,960,533</b>	<b>\$11,567,807</b>	<b>0.19%</b>

(1) Managed by Chandler Asset Management, Inc.

### Summary of Yields\* for Select Santa Clara County Investment Funds

Fund	2016			2015
	<u>Jan 31</u>	<u>Feb 29</u>	<u>Mar 31</u>	<u>Mar 31</u>
Commingled Investment Pool	0.77%	0.82%	0.83%	0.54%
Worker's Compensation	1.21%	1.21%	1.21%	1.22%
<b>Weighted Yield</b>	<b>0.78%</b>	<b>0.82%</b>	<b>0.83%</b>	<b>0.54%</b>

\*Yield to maturity (YTM) is the rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date and if the coupon interest paid over the life of the bond is reinvested at the same rate as the coupon rate. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price at time of purchase.

Yield is a snapshot measure of the yield of the portfolio on the day it was measured based on the current portfolio holdings on that day. This is not a measure of total return, and is not intended to be, since it does not factor in unrealized capital gains and losses and reinvestment rates are dependent upon interest rate changes

\*\*Cost Value is the amortized book value of the securities as of the date of this report.



# **Santa Clara County Commingled Pool and Segregated Investments**

## **Portfolio Strategy**

**March 31, 2016**

The U.S. economy as measured by gross domestic product (GDP) grew very slowly during the first calendar quarter of 2016. GDP expanded at an annualized rate of one half of one percent, barely positive. GDP is a primary indicator used to gauge the health of a country's economy and consists of the total dollar value of all goods and services produced. Despite weakness in growth, economists have not expressed strong concern for several reasons. Slow first quarters followed by improved and sometimes robust economic performance have become a common seasonal pattern in recent years. In 2010 through 2015, first-quarter GDP growth averaged just 0.8 percent compared with 3.1 percent for the second quarter, 2.2 percent in the third quarter and 2.4 percent for the fourth quarter. More importantly, economists generally expect the strength in U.S. labor markets, the rebound in domestic equity markets, steady consumer spending and an improving manufacturing sector will prevent the U.S. from slipping into recession.

The Dow Jones Industrial Average in mid-April closed above 18,000 for the first time since July 2015. This hefty 15 percent gain from the lows posted by the index in February 2016 found support from several sources. The Federal Reserve Bank's announced intent to move even more gradually with further rate hikes bolstered investor sentiment and calmed fears of higher rates hurting the economy. So far, the Federal Reserve Bank hasn't altered interest rates since December 2015, when it raised its benchmark rate for the first time in nearly a decade. Higher oil prices and expectations of lower excess crude oil inventories also has bolstered investor sentiment. Over the past twelve months, much of the weakness in aggregate corporate earnings as well as in business spending reflected in GDP has stemmed from the collapse in the energy sector. Crude oil, which continues to benefit from growing demand and, even with moderately higher prices, is expected to be less of a drag on GDP and business earnings in 2016.

The U.S. job market remained healthy throughout the first quarter 2016 with an average payroll gain per month of 200,000 jobs. Even though April's payroll report was mildly disappointing, the underlying positive trends found in prior months held steady. Rising employment translates into rising income. The latter fuels consumption. Another key element, consumer borrowing, also supports consumption. Household borrowing surged in March at the fastest pace since November 2001. Financing for automobiles and credit card debt posted sizable increases. With improving labor markets, consumers may be growing more comfortable carrying larger credit card balances. Overall household borrowing in the first quarter grew at a 6.4 percent annualized rate. This compares with a 6.2 percent rate which occurred in the final three months of 2015.

Our portfolio strategy continues to focus on the: (1) acquisition of high quality issuers; (2) identifying and selecting bonds with attractive valuations; (3) appropriately sizing the liquidity portion of the portfolio to ensure adequate cash for near term obligations; and (4) ensuring that monies targeted for longer term investments are deployed in vehicles with favorable risk adjusted yields. Broker-dealers have generally down-sized the amount of securities carried in inventories in response to risk-curbing rules crafted after the 2008 financial crisis, including Basel III and the 2010 Dodd-Frank Act. With more efficient software, we have been addressing this issue by scanning a larger scope of inventory listings to find attractive bonds. Our portfolio structuring does not engage in interest rate anticipation strategies.



## **Santa Clara County Commingled Pool and Segregated Investments**

### **Portfolio Compliance, Review, and Monitoring**

**March 31, 2016**

#### **Yield and Weighted Average Maturity**

The yield of the Commingled Pool is 0.832 and the weighted average life is 428 days.

#### **Compliance**

The County Treasurer believes the Commingled Pool contains sufficient cash flow from liquid and maturing securities, bank deposits and incoming cash to meet the next six months of expected expenditures.

#### **Review and Monitoring**

FTN Financial Main Street Advisors, the County's investment advisor, currently monitors the Treasury Department's investment activities.

#### **Additional Information**

Securities are purchased with the expectation that they will be held to maturity, so unrealized gains or losses are not reflected in the yield calculations.

The market values of securities were taken from pricing services provided by the Bank of New York Mellon, Bloomberg Analytics, dealer quotes, and an independent pricing service.

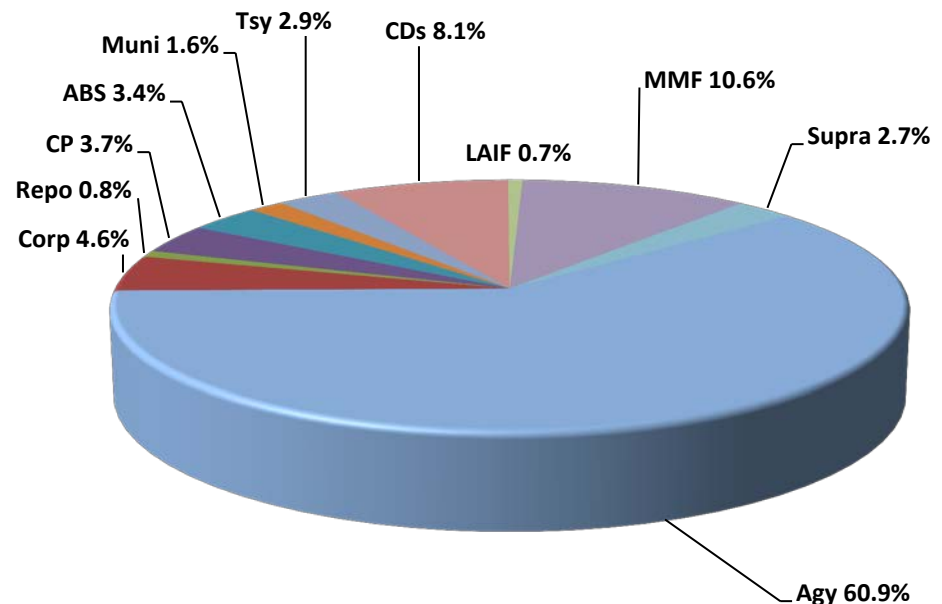


## Santa Clara County Commingled Pool

### Allocation by Security Types

March 31, 2016

Sector	3/31/2016	12/31/2015	% Chng
Federal Agencies	60.85%	62.79%	-1.9%
Corporate Bonds	4.58%	4.23%	0.4%
Repurchase Agreements	0.83%	0.00%	0.8%
Commercial Paper	3.72%	3.43%	0.3%
Asset-Backed Securities	3.39%	2.25%	1.1%
Municipal Securities	1.65%	1.52%	0.1%
U.S. Treasuries	2.90%	2.68%	0.2%
Negotiable CDs	8.11%	8.94%	-0.8%
LAIF	0.66%	0.61%	0.1%
Money Market Funds	10.60%	12.05%	-1.4%
Supranationals	2.69%	1.49%	1.2%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	



Sector	3/31/2016	12/31/2015
Federal Agencies	3,675,538,128	4,108,273,874
Corporate Bonds	276,912,986	276,909,811
Repurchase Agreements	50,000,000	-
Commercial Paper	224,860,551	224,733,205
Asset-Backed Securities	204,868,042	147,305,396
Municipal Securities	99,471,317	99,654,387
U.S. Treasuries	175,422,200	175,478,569
Negotiable CDs	490,000,000	585,000,000
LAIF	40,069,267	40,032,216
Money Market Funds	640,518,911	788,481,963
Supranational	162,453,153	97,519,080
<b>Total</b>	<b>6,040,114,555</b>	<b>6,543,388,499</b>

Amounts are based on book value

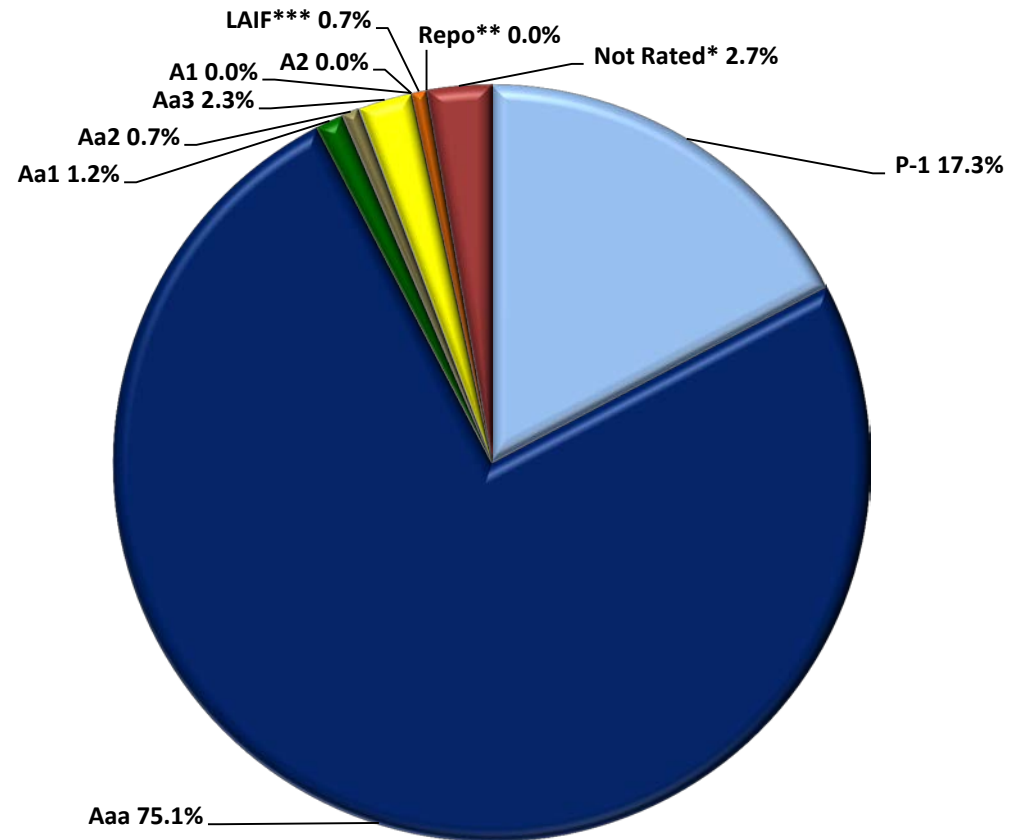


## Santa Clara County Commingled Pool

### Allocation by Ratings

March 31, 2016

Moody's Rating	Portfolio \$	Portfolio %
P-1	1,044,089,353	17.3%
Aaa	4,533,744,537	75.1%
Aa1	72,977,915	1.2%
Aa2	44,251,879	0.7%
Aa3	139,192,734	2.3%
A1	-	0.0%
A2	-	0.0%
A3	-	0.0%
LAIF***	40,069,267	0.7%
Repo**	-	0.0%
Not Rated*	165,788,871	2.7%
Total	6,040,114,555	100.0%



\*Not Rated by Moody's but A-1+ by S&P

\*\*Repurchase Agreements are not rated, but are collateralized by U.S. Treasury securities or securities issued by the Federal Agencies of the U.S.

\*\*\*LAIF is not rated, but is comprised of State Code allowable securities

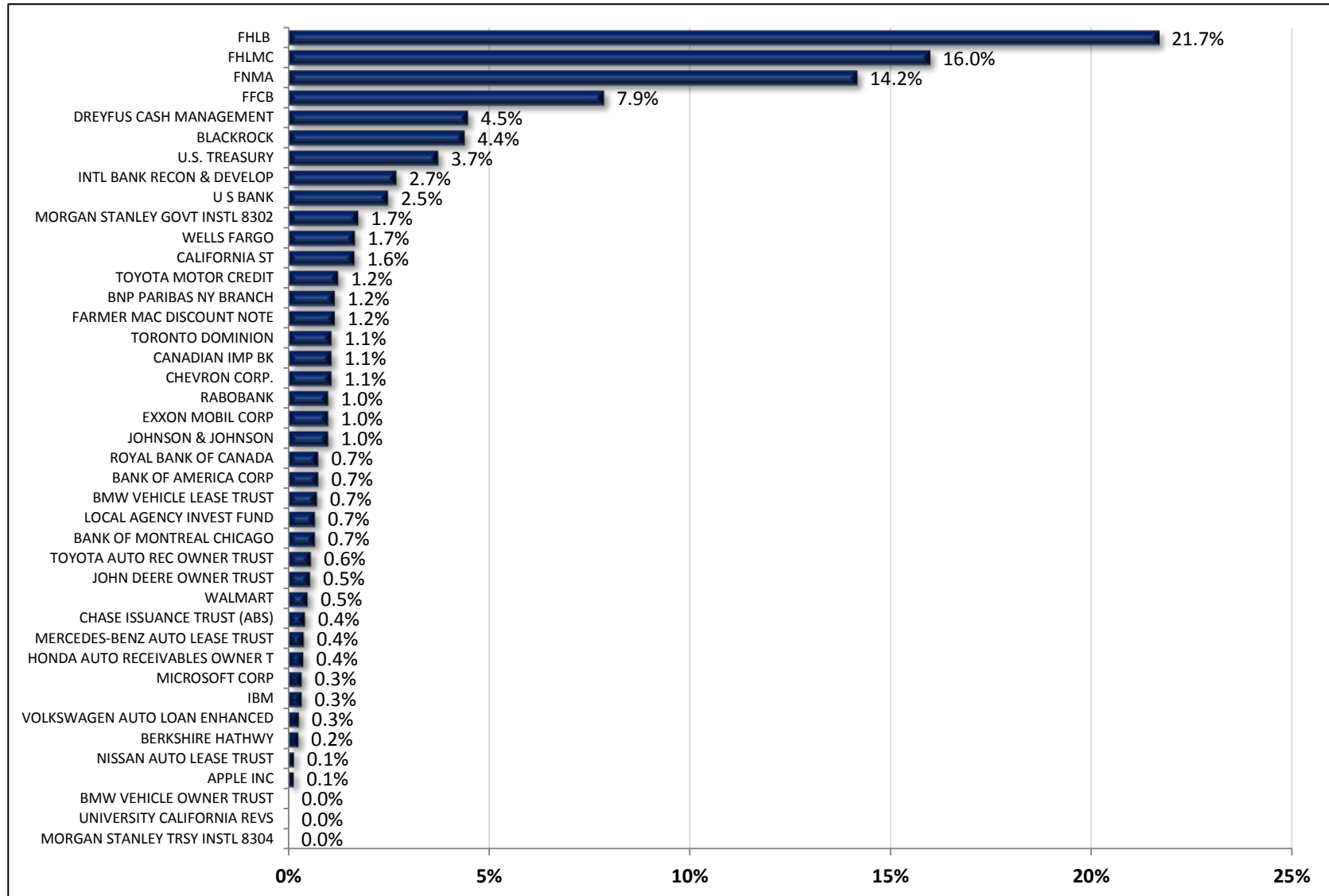
Amounts are based on book values



## Santa Clara County Commingled Pool

### Holdings by Issuer - Percent of Commingled Pool

March 31, 2016



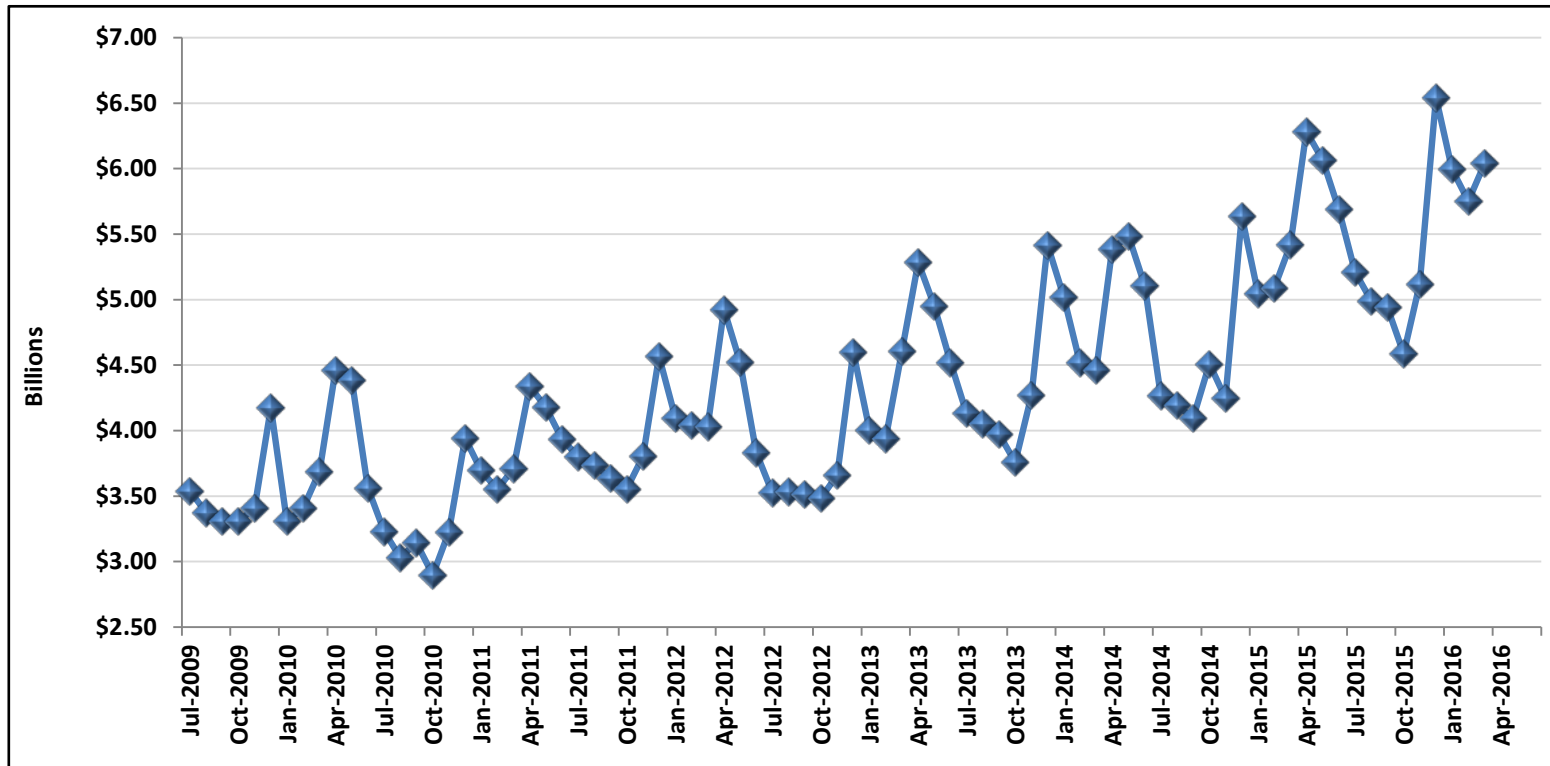
Amounts are based on book values



## Santa Clara County Commingled Pool

### Historical Month End Book Values

March 31, 2016



Fiscal Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 2010	\$3.541	\$3.373	\$3.307	\$3.307	\$3.408	\$4.175	\$3.307	\$3.408	\$3.687	\$4.463	\$4.384	\$3.536
FY 2011	\$3.230	\$3.032	\$3.143	\$2.898	\$3.227	\$3.943	\$3.695	\$3.551	\$3.712	\$4.339	\$4.179	\$3.935
FY 2012	\$3.801	\$3.736	\$3.637	\$3.555	\$3.805	\$4.567	\$4.097	\$4.040	\$4.032	\$4.926	\$4.525	\$3.833
FY 2013	\$3.508	\$3.517	\$3.515	\$3.469	\$3.645	\$4.600	\$3.918	\$3.982	\$4.606	\$5.286	\$4.952	\$4.521
FY 2014	\$4.133	\$4.052	\$3.975	\$3.758	\$4.271	\$5.419	\$5.019	\$4.520	\$4.461	\$5.386	\$5.487	\$5.108
FY 2015	\$4.267	\$4.194	\$4.096	\$4.051	\$4.247	\$5.639	\$5.045	\$5.085	\$5.420	\$6.284	\$6.065	\$5.690
FY 2016	\$5.212	\$4.990	\$4.941	\$4.587	\$5.120	\$6.543	\$5.997	\$5.752	\$6.040			

Amounts in billions

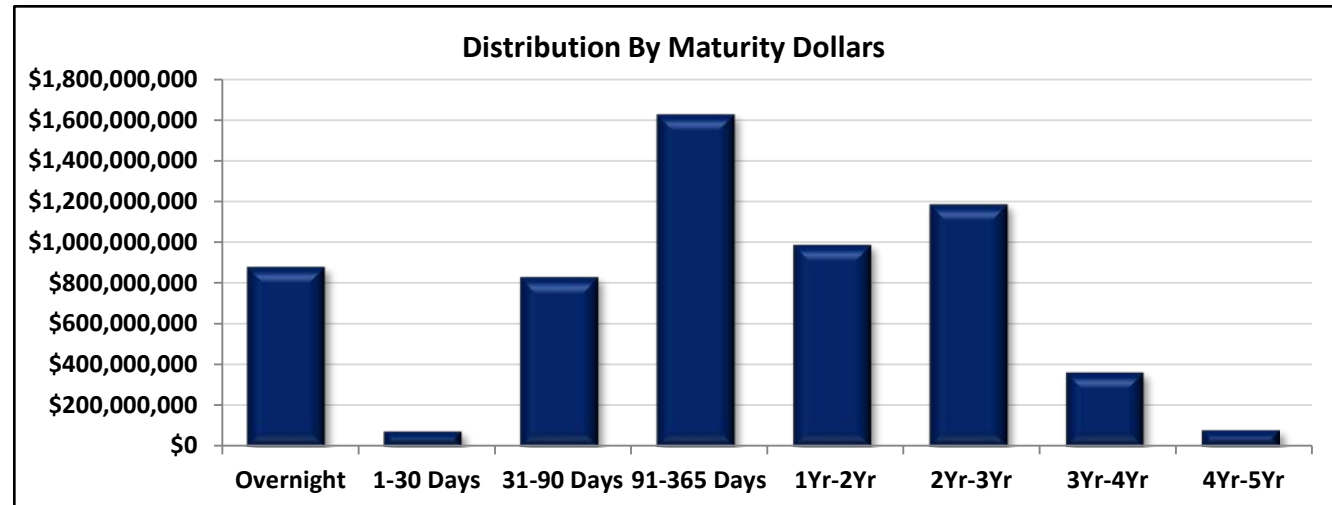


## Santa Clara County Commingled Pool

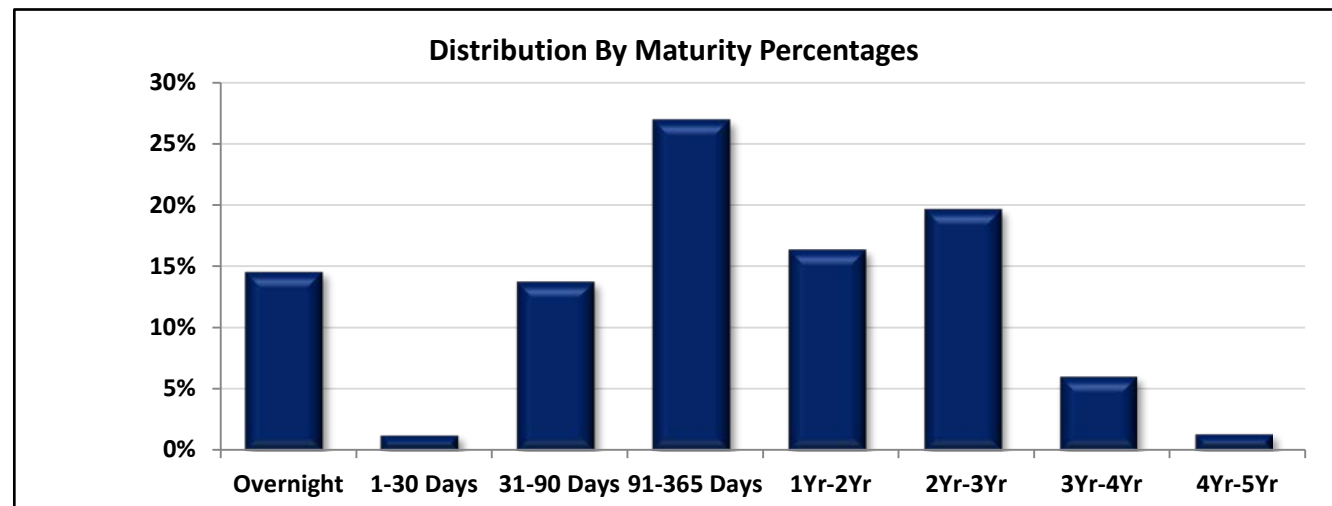
### Distribution by Maturity

March 31, 2016

Maturity	Amount*
Overnight	880,588,178
1-30 Days	74,985,344
31-90 Days	830,945,423
91-365 Days	1,628,839,002
1Yr-2Yr	989,416,285
2Yr-3Yr	1,188,211,807
3Yr-4Yr	364,933,807
4Yr-5Yr	82,194,708
	6,040,114,555



Maturity	Amount*
Overnight	14.58%
1-30 Days	1.24%
31-90 Days	13.76%
91-365 Days	26.97%
1Yr-2Yr	16.38%
2Yr-3Yr	19.67%
3Yr-4Yr	6.04%
4Yr-5Yr	1.36%
	100.00%



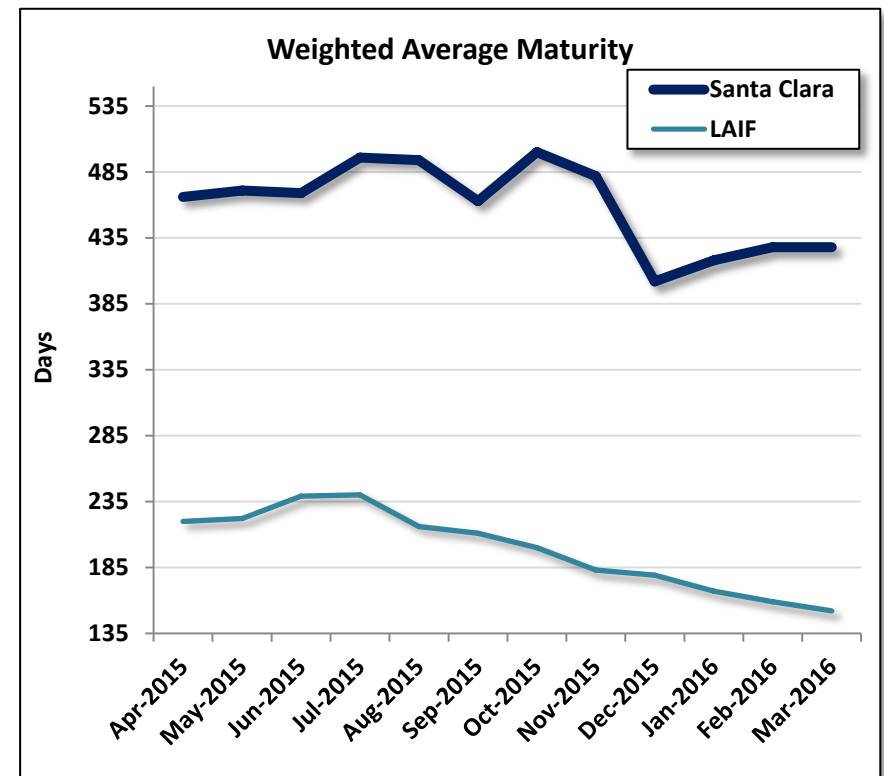
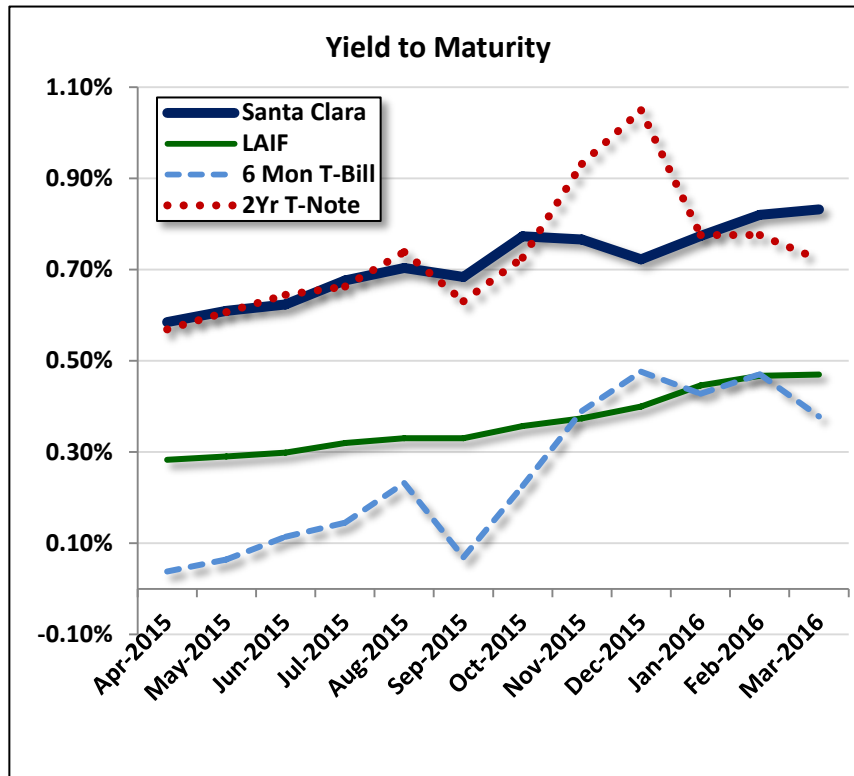
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

March 31, 2016



Item	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
SCC YTM	0.59%	0.61%	0.62%	0.68%	0.70%	0.68%	0.77%	0.77%	0.72%	0.77%	0.82%	0.83%
LAIF YTM	0.28%	0.29%	0.30%	0.32%	0.33%	0.33%	0.36%	0.37%	0.40%	0.45%	0.47%	0.47%
6 Mon T-Bill	0.04%	0.06%	0.11%	0.15%	0.23%	0.07%	0.23%	0.39%	0.48%	0.43%	0.47%	0.38%
2Yr T-Note	0.57%	0.61%	0.65%	0.66%	0.74%	0.63%	0.73%	0.93%	1.05%	0.78%	0.78%	0.72%
SCC WAM	466	471	469	496	494	463	500	482	402	418	428	428
LAIF WAM	220	222	239	240	216	211	200	183	179	167	159	152



## Santa Clara County

### Approved Issuers and Broker/Dealers

March 31, 2016

#### Direct Commercial Paper Issuers

Toyota Motor Credit Corp  
US Bancorp  
Wells Fargo & Co

#### Broker/Dealers

Barclays Capital, Inc  
Blaylock Robert Van, LLC  
BMO Capital Markets  
BNP Paribas Securities Corp  
Brean Capital LLC  
Cantor Fitzgerald & Co  
Castleoak Securities LP  
Citigroup Global Markets Inc  
Credit Suisse Securities, USA  
Daiwa Capital Markets America Inc  
Deutsche Bank Securities Inc  
FTN Financial, Inc  
Incapital LLC  
Jefferies & Co  
JP Morgan Securities, Inc  
Keybanc Capital Markets, Inc  
Loop Capital Markets LLC  
Merrill Lynch & Co Inc  
Mizuho Securities USA, Inc  
Morgan Stanley & Co Inc  
Piper Jaffray & Co  
Raymond James, Inc.  
RBC Capital Markets, Inc  
Stifel Nicolaus & Co  
Suntrust Robinson Humphrey Inc  
UBS  
Vining Sparks LP  
Wedbush Securities Inc  
Wells Fargo Institutional Securities  
Williams Capital

**Santa Clara County Commingled Pool**  
**Compliance with Investment Policy**  
**March 31, 2016**



Item/Sector	Parameters	In Compliance
Maturity	Weighted Average Maturity (WAM) must be less than 24 months	Yes
Interest Periods	Securities must pay interest within one year of the initial investment and at least semiannually in subsequent years	Yes
Investment Swaps	Similar maturity swaps, so as not to affect cash flow needs, should have minimum 5 basis point gain	Yes
Issuer Limits	No more than 5% of the portfolio shall be invested in aggregate of any single institution of the following types: Bankers Acceptances, CP, Negotiable CDs, and Corporate Notes	Yes
U.S. Treasuries	No sector limit, no issuer limit, max maturity 5 years	Yes
U.S. Federal Agencies	No sector limit, no issuer limit, max maturity 5 years	Yes
LAIF	No sector limit, no issuer limit, CA State's deposit limit \$50 million	Yes
Repurchase Agreements	No sector limit, no Issuer limit, max maturity 92 days, treasury and agency collateral at 102% of investment, if maturity exceeds 15 days, must be collateralized by securities with 5 years or less maturities	Yes
Commercial Paper	Sector limit 40%, issuer limit 5%, max maturity 270 days, rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), issued by domestic corporation w/ at least \$500 mil of assets, and long term debt rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's)	Yes
Corporate Bonds	Sector limit 30%, issuer limit 5%, max maturity 5 years, rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's), issued by domestic corps/depositories	Yes
Money Market Funds	Sector limit 20%, issuer limit 10%, rated by at least two: AAA-m (S&P/Fitch)/Aaa-mf (Moody's), MMF has at least \$500 mil managed	Yes
Negotiable Certificates of Deposit	Sector limit 30%, issuer limit 5%, max maturity 5 years, if under 1 year rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), if greater than 1 year rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's)	Yes
Municipal Securities	Sector limit 10%, no issuer limit, State of CA, local CA agencies, and other municipal securities of the other 49 states, if long-term rated, then by at least two: A- (S&P/Fitch)/A3 (Moody's), if short-term rated, then by at least two: SP-1 (S&P), MIG-1 (Moody's), F-1 (Fitch), revenue based bonds payable solely out of the States' or local agencies' revenues	Yes
Mortgage-Backed Securities	Sector limit 20% in aggregate with ABS, no issuer limit, max maturity 5 years, collateralized by pools of conforming residential mortgage loans insured by FHLMC/FNMA and residential mortgages guaranteed by FHA (GNMA)	Yes, None in Portfolio
Asset-Backed Securities	Sector limit 20% in aggregate with ABS, no issuer limit, max maturity 5 years, collateralized by pools of loans such as installment/receivables, security must be rated by at least two: AA- (S&P/Fitch), Aa3 (Moody's), issuer rated by at least two: A- (S&P/Fitch), A3 (Moody's)	Yes
Supranational Debt Obligations	Sector limit 10%, max maturity 5 years, issued or unconditionally guaranteed by the IBRD, rated by at least two: AAA (S&P/Fitch), Aaa (Moody's)	Yes
Bankers' Acceptances	Sector limit 40%, issuer limit 5%, max maturity 180 days, rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), issued by commercial banks	Yes, None in Portfolio
Securities Lending	Sector limit 20%, max maturity 92 days for loans and reinvestment, loan counterparty must be a primary dealer, loaned securities must be owned for at least 30 days	Yes, None in Portfolio