

# County of Santa Clara



## Finance Agency Controller-Treasurer Department


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September 8, 2016

Submitted by:

  
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 

SUBJECT: COUNTY OF SANTA CLARA TREASURY INVESTMENT PORTFOLIO STATUS

### **RECOMMENDATION**

Receive and file the June 30, 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 June 30, 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	\$6,262,622,531	\$6,281,466,969	\$18,844,438	0.30%

The yield of the pool on June 30, 2016 was 0.90%. As a comparison, on June 30, 2016 the yield of a 6-month Treasury Bill was 0.35%. A two-year Treasury Note was .58%. The State of California Local Agency Investment Fund (LAIF) yield was 0.58%.

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 offered by selected comparable instruments.

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

The market values of Pool securities were taken from pricing services provided by Bank of New York Mellon, 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 Board member would like further information on this report, please let me know.

Attachments:

June 2016 Quarterly Investment Summary



# **Quarterly Investment Report**

**June 30, 2016**

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## Quarterly Investment Review Table of Contents

### Quarterly Investment Report

#### Table of Contents

Summary of Cost Values versus Market Values and Yields	1
Portfolio Strategy, Compliance, Review and Monitoring	2
Commingled Pool: Allocation by Security Types	4
Commingled Pool: Allocation by Ratings	5
Commingled Pool: Holdings by Issuer	6
Commingled Pool: Historical Month End Book Values	7
Commingled Pool: Distribution by Maturity	8
Commingled Pool: Yield to Maturity and Weighted Average Maturity	9
Approved Issuers and Broker/Dealers	10
Commingled Pool: Compliance with Investment Policy	11
Holdings Report: Commingled Pool	12
Holdings Report: Worker's Compensation	24
Holdings Report: Mountain View-Los Altos	25
Holdings Report: Palo Alto Unified	26
Holdings Report: Park Charter Fund	27
Holdings Report: San Jose-Evergreen	28
Transaction Activity Report	30

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

June 30, 2016

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$6,262,622,531	\$6,281,466,969	\$18,844,438	0.30%
Worker's Compensation	\$27,535,832	\$27,819,805	\$283,973	1.03%
Mountain View-Los Altos	\$2,023,226	\$2,023,226	\$0	0.00%
Palo Alto Unified	\$606,186	\$606,186	\$0	0.00%
Park Charter Fund	\$11,436,922	\$11,448,369	\$11,447	0.10%
San Jose-Evergreen	\$19,927,204	\$20,070,377	\$143,173	0.72%
Medical Malpractice Insurance Fund (1)	\$12,933,925	\$13,112,785	\$178,860	1.38%
<b>Total</b>	<b>\$6,337,085,825</b>	<b>\$6,356,547,717</b>	<b>\$19,461,892</b>	<b>0.31%</b>

(1) Managed by Chandler Asset Management, Inc.

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

Fund	2016			2015
	<u>Apr 30</u>	<u>May 31</u>	<u>Jun 30</u>	<u>Jun 30</u>
Commingled Investment Pool	0.83%	0.86%	0.90%	0.62%
Worker's Compensation	1.21%	1.20%	1.21%	1.21%
<b>Weighted Yield</b>	<b>0.83%</b>	<b>0.86%</b>	<b>0.90%</b>	<b>0.63%</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**

**June 30, 2016**

Federal Reserve Bank policy makers who met on June 22nd, and most recently in late July, voted to keep interest rates unchanged. Policy makers have held their benchmark rate (frequently referred to as the federal funds rate), which is considered a determining factor of domestic bond yields, at 0.25 percent to 0.5 percent throughout 2016. Although Federal Reserve Bank officials acknowledge recent evidence of increasing economic strength, policy makers remain reticent to take immediate action to further increase rates. A change in rates could harm the economy in the event that global risks intensify or economic indicators unexpectedly turn around. Raising interest rates later this year is still seen as a possibility by some economists because of recent optimism expressed by policy makers.

Domestic economic data continues to point toward modest growth. The Commerce Department reported that gross domestic product (GDP) increased by 1.1 percent during the second quarter ending June 30th. GDP, a primary measure of an economy's health, represents the total dollar value of all goods and services produced. According to the most recent report GDP had advanced by eight-tenths of a percent in the prior three months.

Those sectors generally considered key drivers within the economy are currently expanding or, at a minimum, reflecting modest retrenchment. Government revenues have recovered, shrinking budget deficits, while hiring and spending at the state and local levels have finally turned positive. Outlays for the military fell during the quarter which slightly reduced overall government spending.

Spending by households, which had been constrained by substantial personal debt, has completely returned to health supported by employment growth and increasing home prices. Household spending, with a 4.2 percent gain in the second quarter, emerged as an important source of strength. Undoubtedly, the impressive addition of 287,000 new jobs bolstered consumer spending in June. It is important to note that the moving six-month average gain in employment was 172,000 jobs per month. This is a robust level, but well short of the 200,000 average that prevailed for most of the past two years.

Corporate spending on equipment, including oil rigs, structures and intellectual property, exhibited less of a reduction. This sector posted a 2.2 percent decrease, an improvement after a 3.4 percent decrease in the first quarter. The type of severe shrinkage that resulted from the collapse in oil and commodity prices experienced by the mining and energy industry is most likely over. While it is unlikely that energy investment will surge any time soon, most analysts do not anticipate further contraction that would strongly hinder overall GDP growth.

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**

**June 30, 2016**

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

The yield of the Commingled Pool is 0.901 and the weighted average life is 439 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.



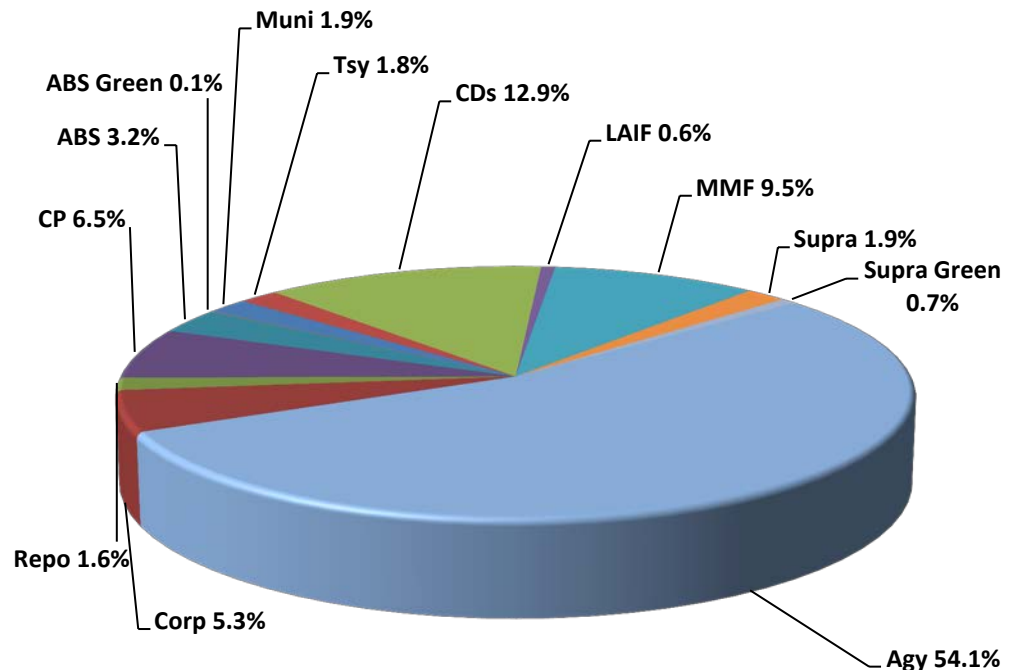
## Santa Clara County Commingled Pool

### Allocation by Security Types

June 30, 2016

Sector	6/30/2016	3/31/2016	% Chng
Federal Agencies	54.12%	60.85%	-6.7%
Corporate Bonds	5.25%	4.58%	0.7%
Repurchase Agreements	1.60%	0.83%	0.8%
Commercial Paper	6.45%	3.72%	2.7%
ABS	3.18%	3.39%	-0.2%
ABS Green Bonds	0.06%	0.00%	0.1%
Municipal Securities	1.92%	1.65%	0.3%
U.S. Treasuries	1.84%	2.90%	-1.1%
Negotiable CDs	12.85%	8.11%	4.7%
LAIF	0.64%	0.66%	0.0%
Money Market Funds	9.49%	10.60%	-1.1%
Supranationals	1.88%	2.69%	-0.8%
Supranationals Green Bonds	0.72%	0.00%	0.7%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	

Sector	6/30/2016	3/31/2016
Federal Agencies	3,389,397,286	3,675,538,128
Corporate Bonds	328,843,317	276,912,986
Repurchase Agreements	100,000,000	50,000,000
Commercial Paper	404,074,846	224,860,551
ABS	198,856,945	204,868,042
ABS Green Bonds	3,999,803	-
Municipal Securities	120,216,490	99,471,317
U.S. Treasuries	115,454,789	175,422,200
Negotiable CDs	805,002,157	490,000,000
LAIF	40,115,520	40,069,267
Money Market Funds	594,209,169	640,518,911
Supranational	117,452,209	162,453,153
Supranationals Green Bonds	45,000,000	-
<b>Total</b>	<b>6,262,622,531</b>	<b>6,040,114,555</b>



Amounts are based on book value

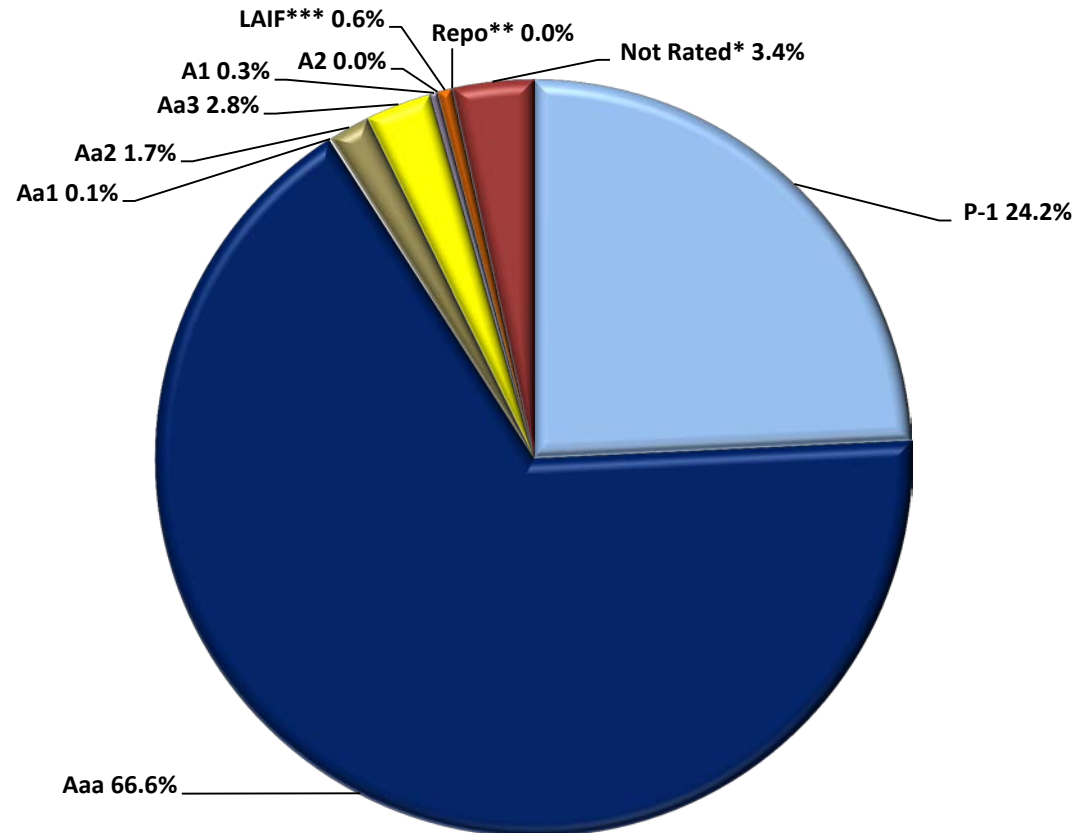


## Santa Clara County Commingled Pool

### Allocation by Ratings

June 30, 2016

Moody's Rating	Portfolio \$	Portfolio %
P-1	1,518,616,102	24.2%
Aaa	4,173,922,097	66.6%
Aa1	7,997,337	0.1%
Aa2	109,229,843	1.7%
Aa3	176,914,834	2.8%
A1	19,949,331	0.3%
A2	-	0.0%
A3	-	0.0%
LAIF***	40,115,520	0.6%
Repo**	-	0.0%
Not Rated*	215,877,467	3.4%
Total	6,262,622,531	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

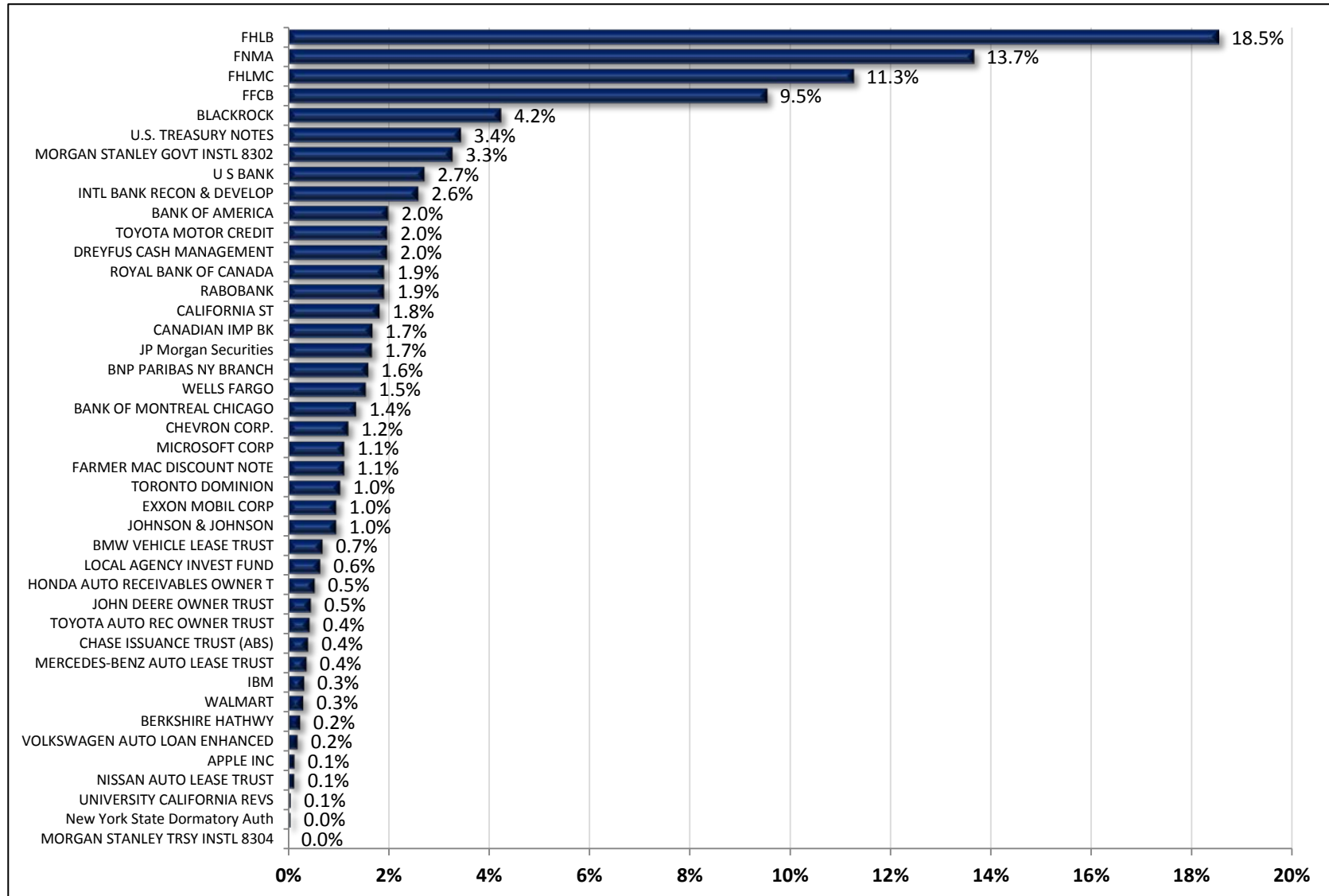
Amounts are based on book values



## Santa Clara County Commingled Pool

### Holdings by Issuer - Percent of Commingled Pool

June 30, 2016



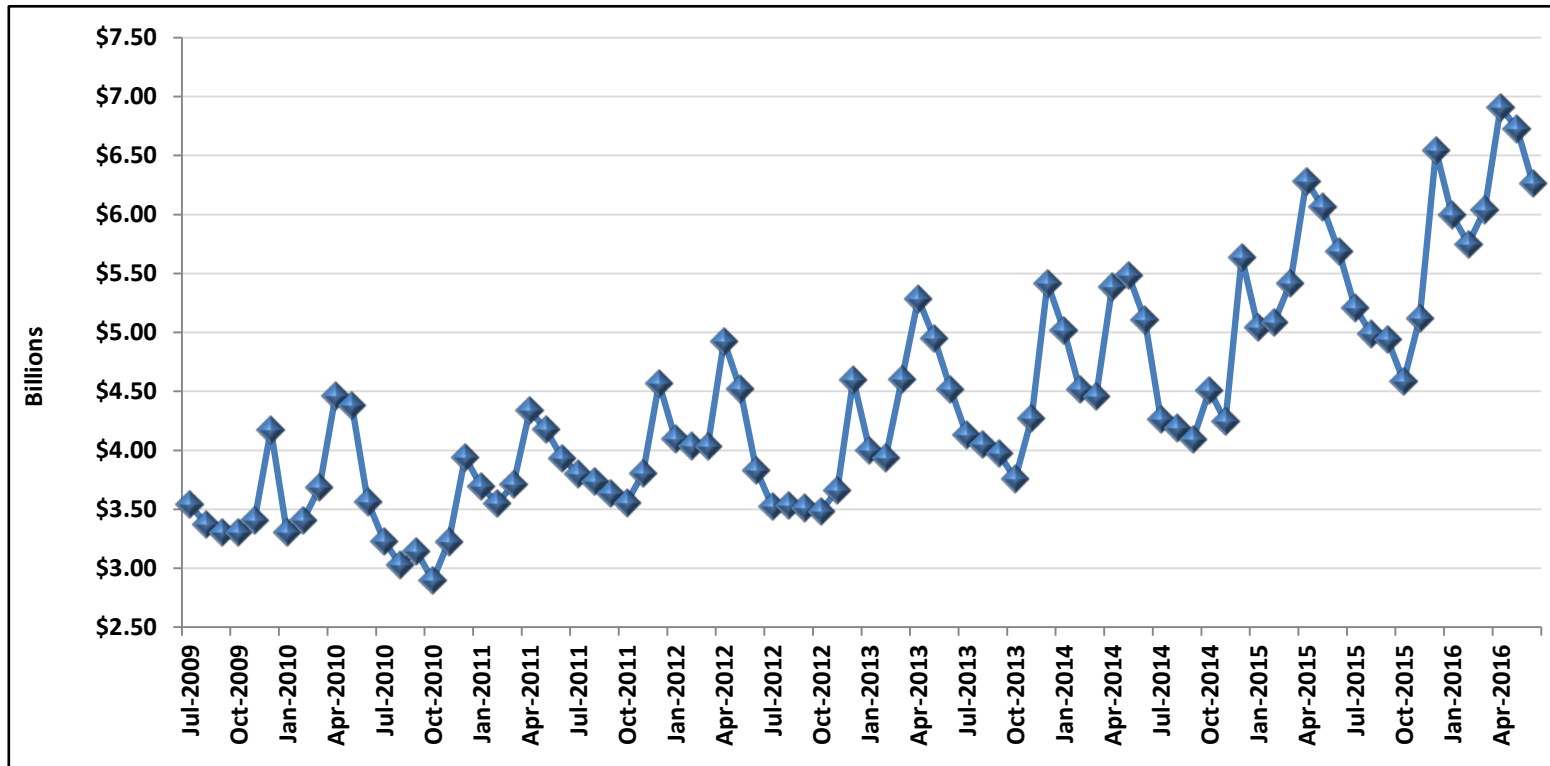
Amounts are based on book values



## Santa Clara County Commingled Pool

### Historical Month End Book Values

June 30, 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	\$6.911	\$6.728	\$6.263

Amounts in billions

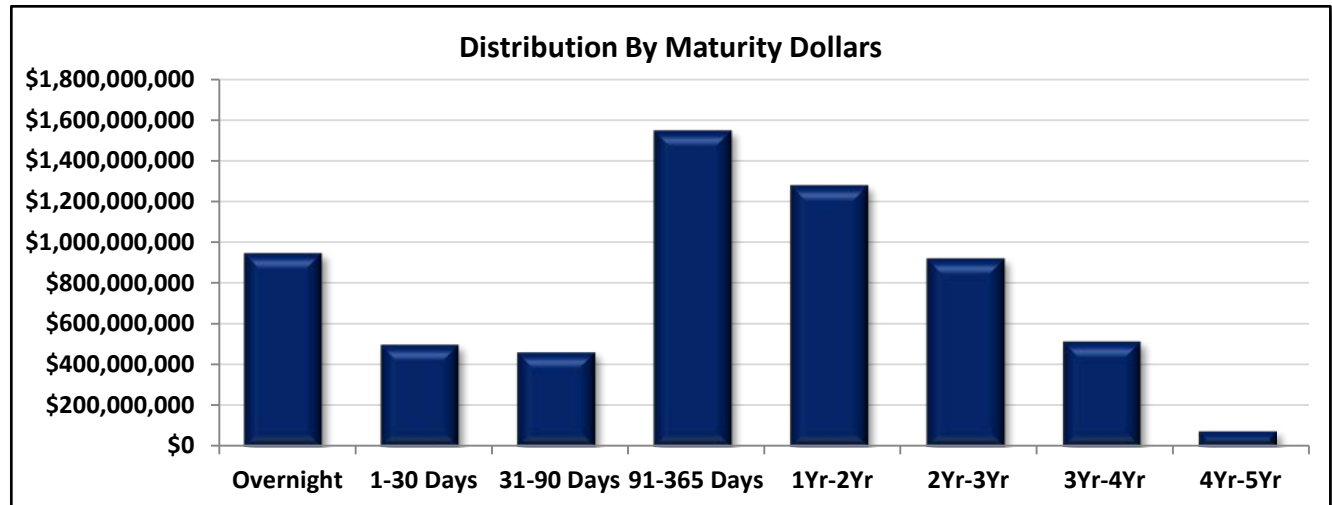


## Santa Clara County Commingled Pool

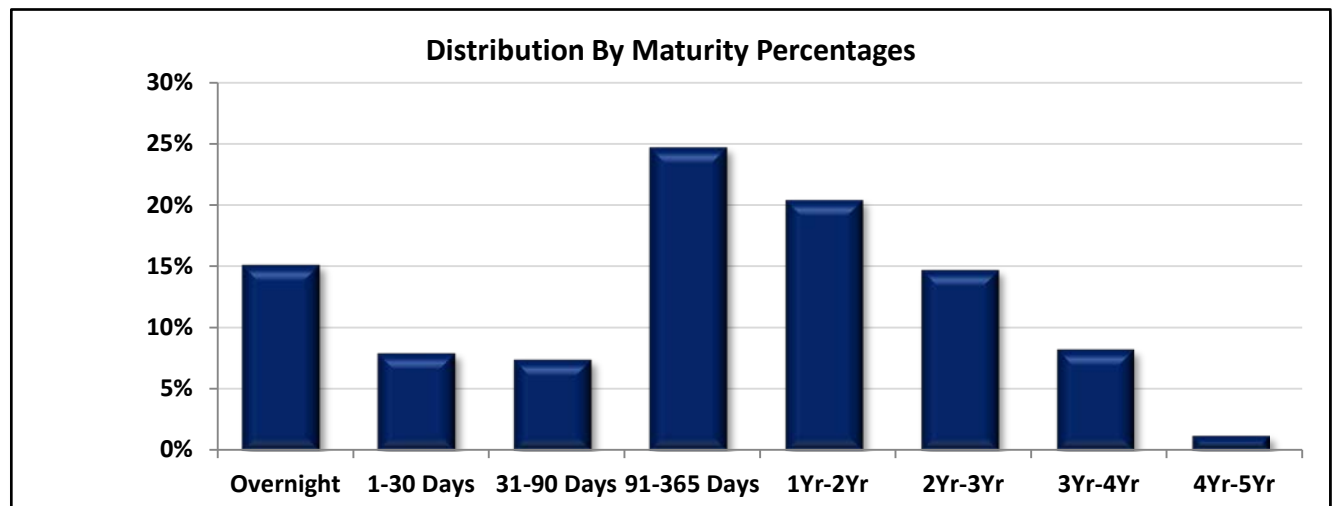
### Distribution by Maturity

June 30, 2016

Maturity	Amount*
Overnight	949,324,688
1-30 Days	499,962,135
31-90 Days	464,859,277
91-365 Days	1,550,361,753
1Yr-2Yr	1,281,263,490
2Yr-3Yr	923,809,318
3Yr-4Yr	516,770,711
4Yr-5Yr	76,271,158
	6,262,622,531



Maturity	Amount*
Overnight	15.16%
1-30 Days	7.98%
31-90 Days	7.42%
91-365 Days	24.76%
1Yr-2Yr	20.46%
2Yr-3Yr	14.75%
3Yr-4Yr	8.25%
4Yr-5Yr	1.22%
	100.00%



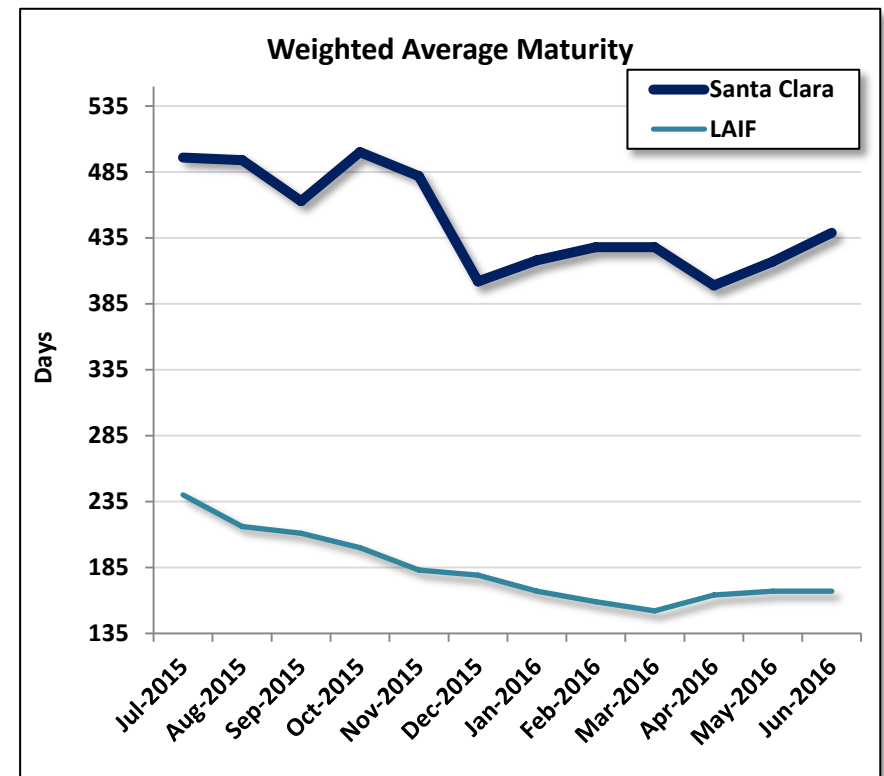
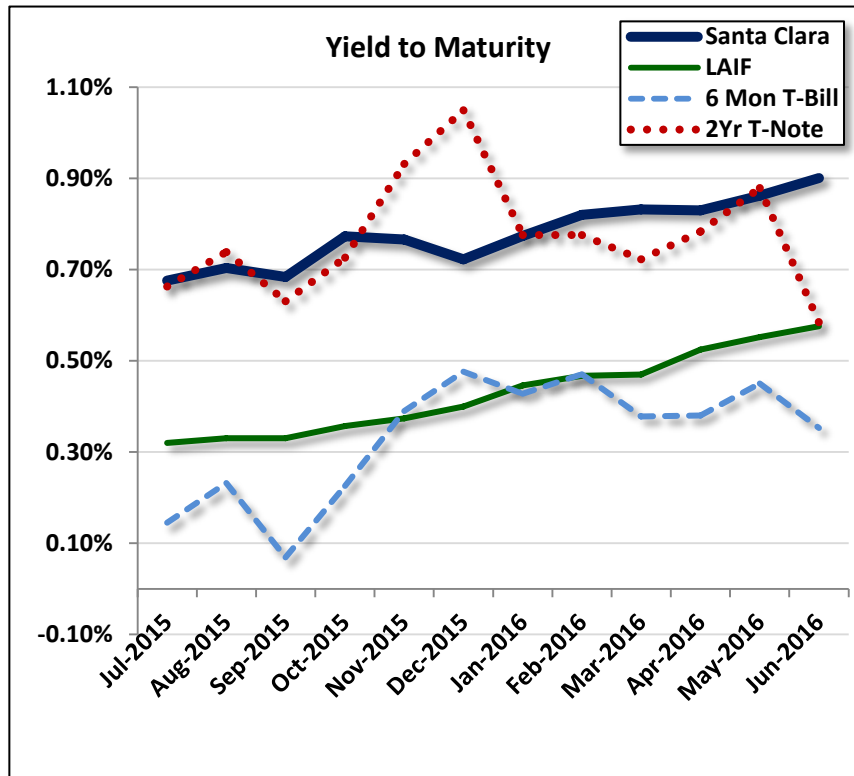
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

June 30, 2016



Item	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
SCC YTM	0.68%	0.70%	0.68%	0.77%	0.77%	0.72%	0.77%	0.82%	0.83%	0.83%	0.86%	0.90%
LAIF YTM	0.32%	0.33%	0.33%	0.36%	0.37%	0.40%	0.45%	0.47%	0.47%	0.53%	0.55%	0.58%
6 Mon T-Bill	0.15%	0.23%	0.07%	0.23%	0.39%	0.48%	0.43%	0.47%	0.38%	0.38%	0.45%	0.35%
2Yr T-Note	0.66%	0.74%	0.63%	0.73%	0.93%	1.05%	0.78%	0.78%	0.72%	0.78%	0.88%	0.58%
SCC WAM	496	494	463	500	482	402	418	428	428	399	417	439
LAIF WAM	240	216	211	200	183	179	167	159	152	164	167	167



## Santa Clara County

### Approved Issuers and Broker/Dealers

June 30, 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**  
**June 30, 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