

County of Santa Clara



Finance Agency Controller-Treasurer Department

County Government Center
70 W. Hedding Street, East Wing, 2nd Floor
San Jose, California 95110-1705
(408) 299-5200 FAX (408) 288-9237

December 8, 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 Emily Harrison

SUBJECT: COUNTY OF SANTA CLARA TREASURY INVESTMENT PORTFOLIO STATUS

RECOMMENDATION

Receive and file the September 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 September 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	\$5,088,457,982	\$5,097,027,761	\$8,569,778	0.17%

The yield of the pool on September 30, 2016 was 0.99%. As a comparison, on September 30, 2016 the yield of a 6-month Treasury Bill was 0.43%. A two-year Treasury Note was 0.76%. The State of California Local Agency Investment Fund (LAIF) yield was 0.63%.

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:

September 2016 Quarterly Investment Summary



Quarterly Investment Report

September 30, 2016



Quarterly Investment Review Table of Contents

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

September 30, 2016

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$5,088,457,982	\$5,097,027,761	\$8,569,778	0.17%
Worker's Compensation	\$27,576,336	\$27,780,180	\$203,844	0.74%
Mountain View-Los Altos	\$2,024,423	\$2,024,423	\$0	0.00%
Palo Alto Unified	\$23	\$23	\$0	0.00%
Park Charter Fund	\$11,461,477	\$11,468,032	\$6,555	0.06%
San Jose-Evergreen	\$20,003,474	\$20,079,199	\$75,725	0.38%
Medical Malpractice Insurance Fund (1)	\$12,967,191	\$13,102,940	\$135,749	1.05%
Total	\$5,162,490,906	\$5,171,482,558	\$8,991,652	0.17%

(1) Managed by Chandler Asset Management, Inc.

Summary of Yields* for Select Santa Clara County Investment Funds

Fund	2016			2015
	<u>Jul 31</u>	<u>Aug 31</u>	<u>Sep 30</u>	<u>Sep 30</u>
Commingled Investment Pool	0.96%	0.98%	0.99%	0.68%
Worker's Compensation	1.20%	1.20%	1.20%	1.21%
Weighted Yield	0.96%	0.98%	0.99%	0.69%

*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

September 30, 2016

Prior to the surprise electoral victory of Republican presidential nominee Donald Trump, expectations had already been strong that Federal Reserve Bank Federal Reserve policy makers would hike interest rates in December. Solid growth in labor markets over the quarter ending September 30, 2016 and rising consumer prices along with improvements in the overall economy were cited as primary motivating factors. U.S. domestic bond markets apparently did not need a change in Federal Reserve policy to ignite a sell-off. Immediately after the election and even before policy makers met in December, the prices of U.S. Treasury bonds and other domestically traded debt dropped sharply, sending bond yields higher.

Markets quickly responded as investors assessed policy implications for growth, inflation and the federal budget deficit resulting from Donald Trump's victory. Even with few, if any policy specifics at this point, the Republican's campaign pledge to cut individual and corporate taxes and spend \$550.0 billion on infrastructure improvements to boost growth concerned investors of debt securities. Both initiatives would sizably increase federal deficits and trigger robust growth in inflation, a major risk factor to fixed income securities. Worries also centered on unintended consequences of a new fiscal stimulus plan. If the new president borrows too much too quickly, it could cause consumer prices to increase without a commensurate increase in wages and which may reduce the financial capacity of consumers to spend.

The current economic expansion began in June 2009 and has continued for 89 months, making it the fourth longest period of growth recorded since 1854. Although this expansion has been relatively long, the U.S. economy has only grown at a 2.1 percent annual pace since 2009. A Wall Street Journal survey of economists in early October 2016 forecast the economy would continue to grow at a sluggish pace for the remainder of this cycle. But now, balancing the risk of sharply rising interest rates and more aggressive use of fiscal stimulus, along with other expected presidential initiatives such as trade protectionism and immigration curbs, greater uncertainty has been introduced along with a stronger probability that a policy mistake could interrupt the economy's current trajectory.

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

September 30, 2016

Yield and Weighted Average Maturity

The yield of the Commingled Pool is .988 and the weighted average life is 533 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.

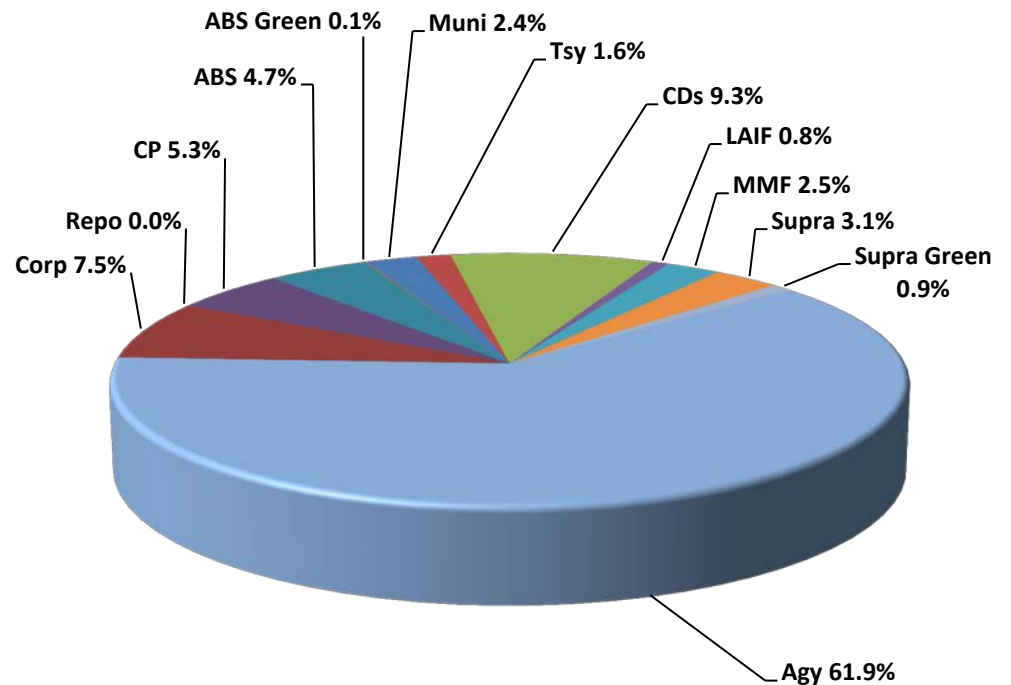


Santa Clara County Commingled Pool

Allocation by Security Types

September 30, 2016

Sector	9/30/2016	6/30/2016	% Chng
Federal Agencies	61.90%	54.12%	7.8%
Corporate Bonds	7.49%	5.25%	2.2%
Repurchase Agreements	0.00%	1.60%	-1.6%
Commercial Paper	5.30%	6.45%	-1.2%
ABS	4.70%	3.18%	1.5%
ABS Green Bonds	0.08%	0.06%	0.0%
Municipal Securities	2.36%	1.92%	0.4%
U.S. Treasuries	1.58%	1.84%	-0.3%
Negotiable CDs	9.33%	12.85%	-3.5%
LAIF	0.79%	0.64%	0.1%
Money Market Funds	2.50%	9.49%	-7.0%
Supranationals	3.09%	1.88%	1.2%
Supranationals Green Bonds	0.88%	0.72%	0.2%
Total	100.00%	100.00%	



Sector	9/30/2016	6/30/2016
Federal Agencies	3,149,653,321	3,389,397,286
Corporate Bonds	381,271,844	328,843,317
Repurchase Agreements	-	100,000,000
Commercial Paper	269,530,923	404,074,846
ABS	238,944,274	198,856,945
ABS Green Bonds	3,999,816	3,999,803
Municipal Securities	120,037,197	120,216,490
U.S. Treasuries	80,370,309	115,454,789
Negotiable CDs	475,001,146	805,002,157
LAIF	40,170,096	40,115,520
Money Market Funds	127,035,603	594,209,169
Supranational	157,443,454	117,452,209
Supranationals Green Bonds	45,000,000	45,000,000
Total	5,088,457,982	6,262,622,531

Amounts are based on book value

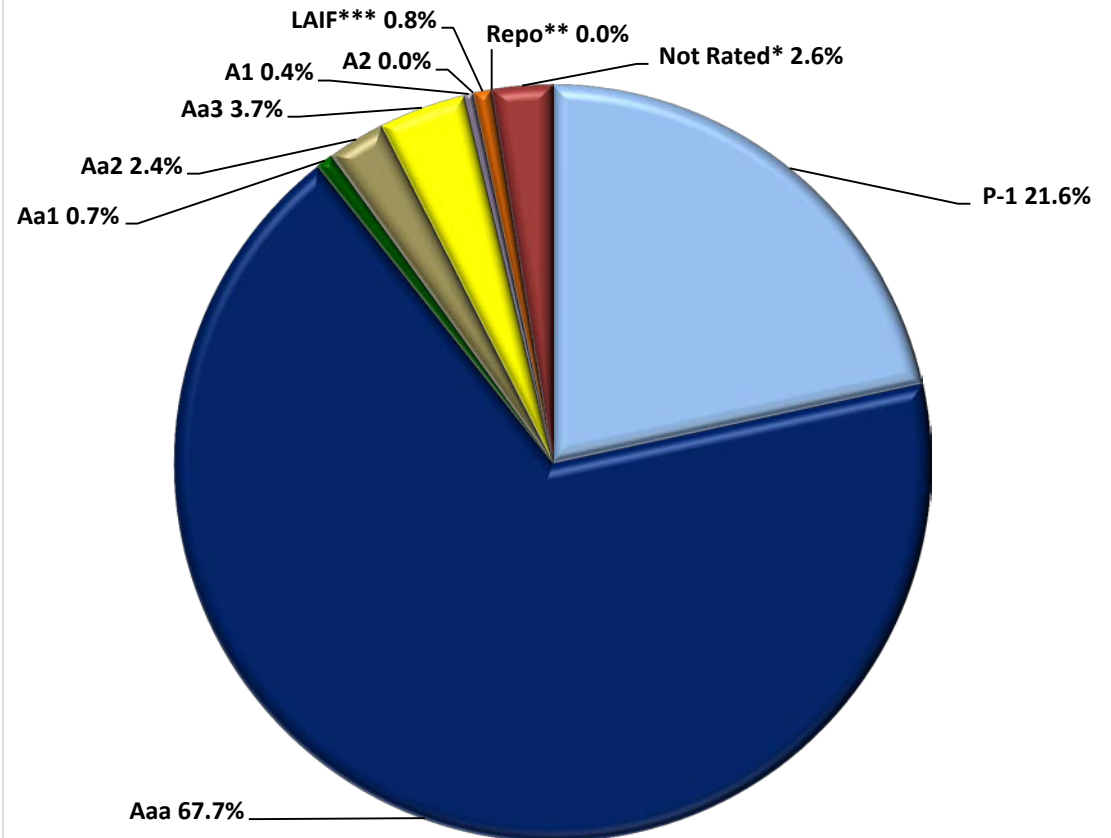


Santa Clara County Commingled Pool

Allocation by Ratings

September 30, 2016

Moody's Rating	Portfolio \$	Portfolio %
P-1	1,099,435,970	21.6%
Aaa	3,446,550,276	67.7%
Aa1	37,969,451	0.7%
Aa2	124,222,914	2.4%
Aa3	189,229,083	3.7%
A1	19,922,239	0.4%
A2	-	0.0%
A3	-	0.0%
LAIF***	40,170,096	0.8%
Repo**	-	0.0%
Not Rated*	130,957,953	2.6%
Total	5,088,457,982	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

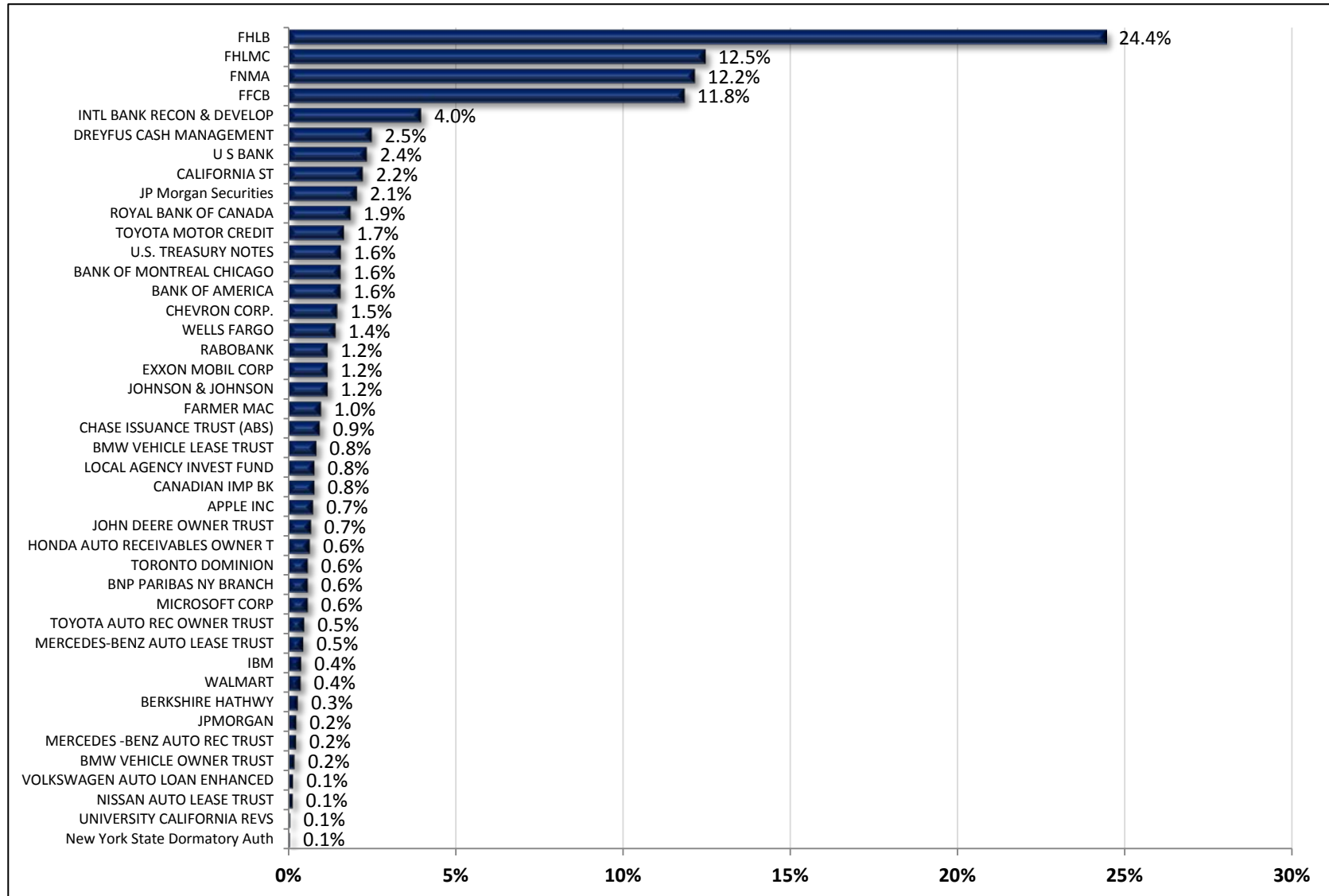
Amounts are based on book values



Santa Clara County Commingled Pool

Holdings by Issuer - Percent of Commingled Pool

September 30, 2016



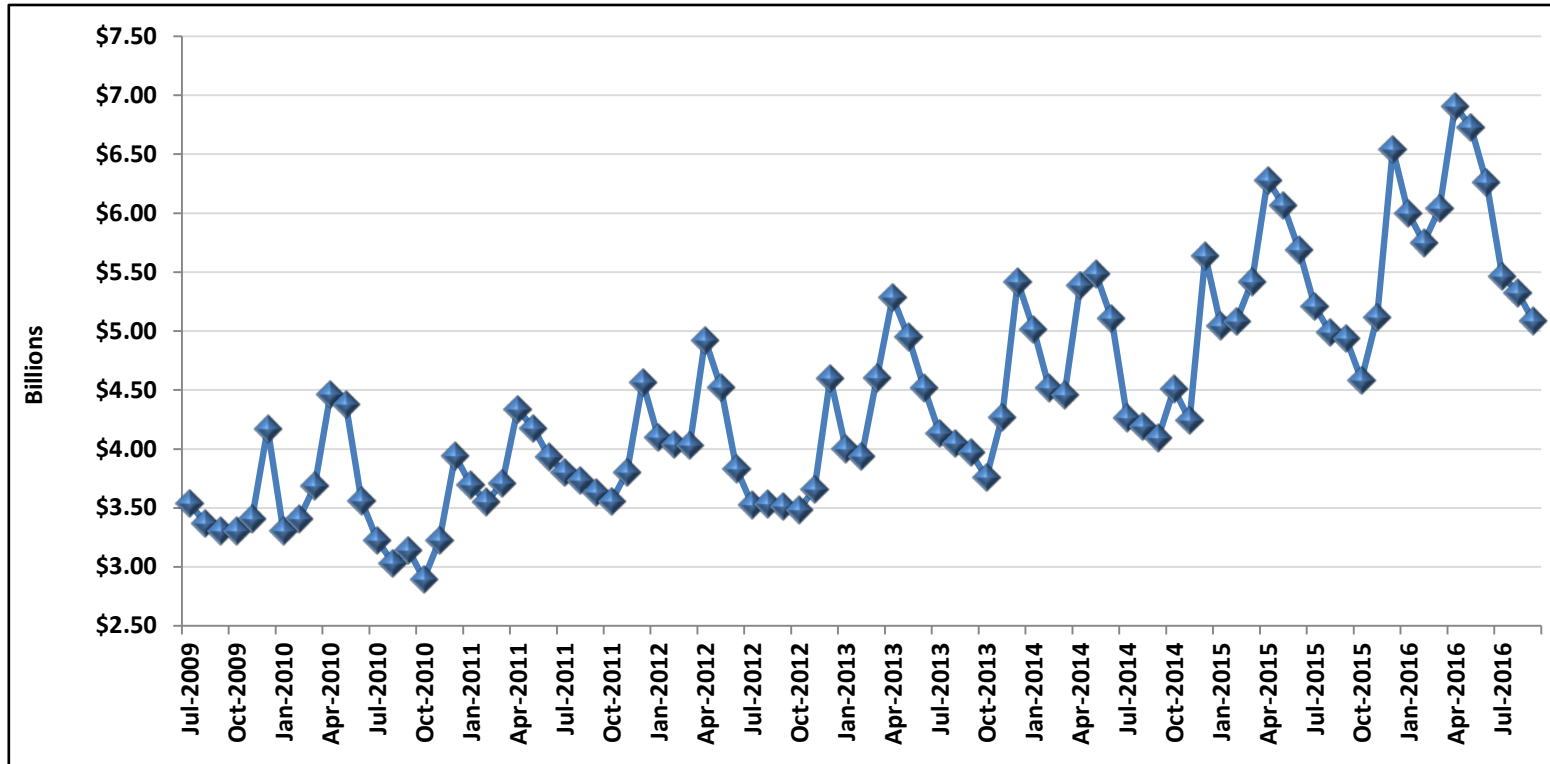
Amounts are based on book values



Santa Clara County Commingled Pool

Historical Month End Book Values

September 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
FY 2017	\$5.469	\$5.328	\$5.088									

Amounts in billions

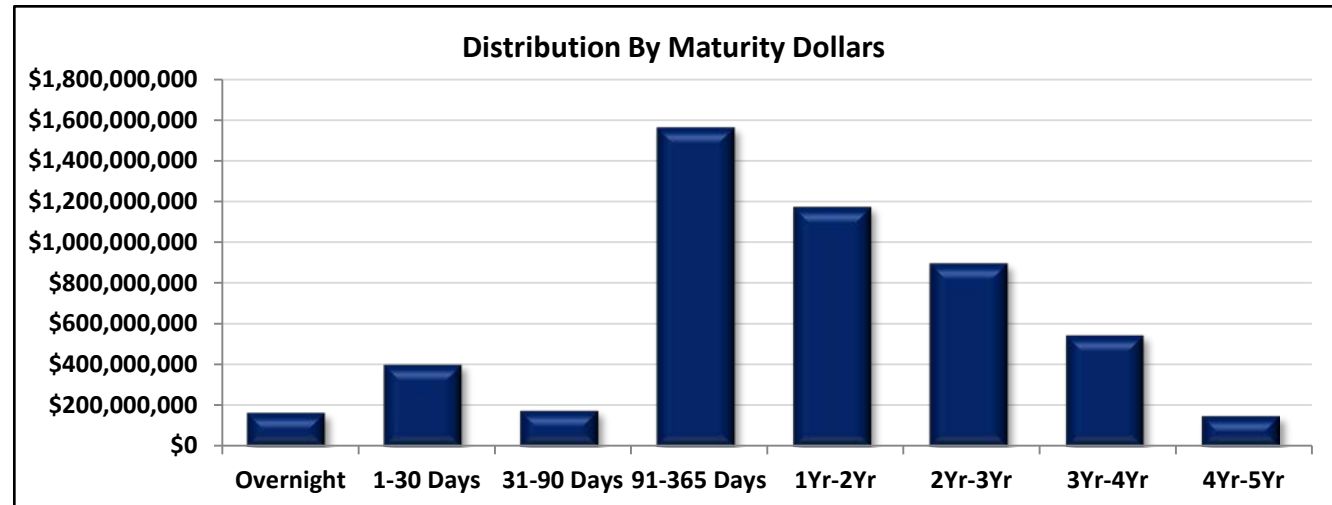


Santa Clara County Commingled Pool

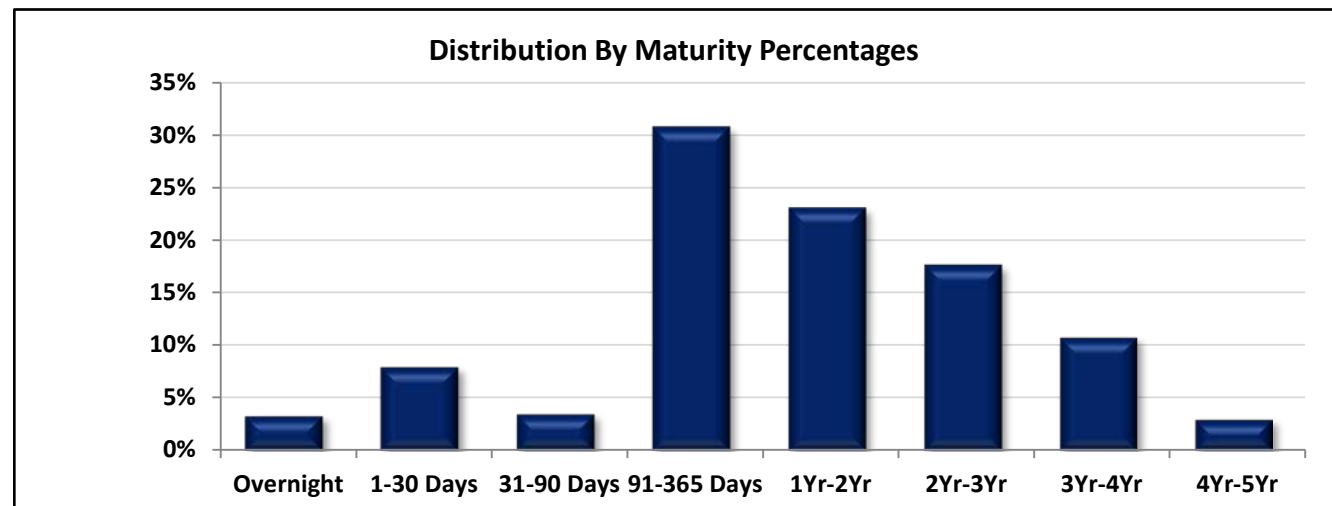
Distribution by Maturity

September 30, 2016

Maturity	Amount*
Overnight	167,205,699
1-30 Days	404,996,742
31-90 Days	177,502,347
91-365 Days	1,566,545,961
1Yr-2Yr	1,175,602,725
2Yr-3Yr	897,693,941
3Yr-4Yr	548,242,486
4Yr-5Yr	150,668,081
	5,088,457,982



Maturity	Amount*
Overnight	3.29%
1-30 Days	7.96%
31-90 Days	3.49%
91-365 Days	30.79%
1Yr-2Yr	23.10%
2Yr-3Yr	17.64%
3Yr-4Yr	10.77%
4Yr-5Yr	2.96%
	100.00%



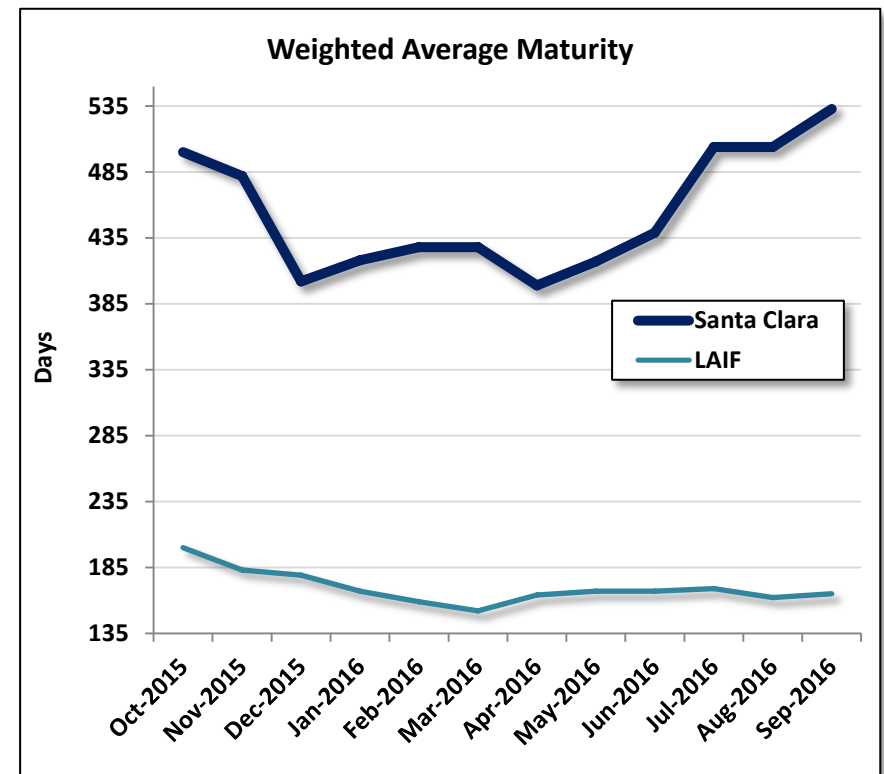
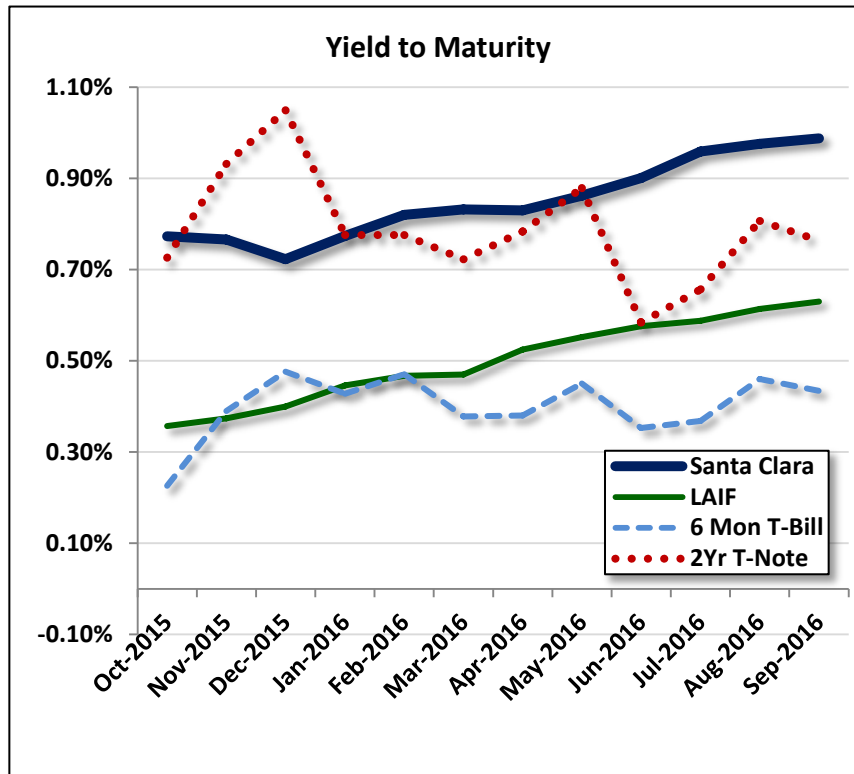
*Amounts are based on book value



Santa Clara County Commingled Pool

Yield to Maturity and Weighted Average Maturity

September 30, 2016



Item	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
SCC YTM	0.77%	0.77%	0.72%	0.77%	0.82%	0.83%	0.83%	0.86%	0.90%	0.96%	0.98%	0.99%
LAIF YTM	0.36%	0.37%	0.40%	0.45%	0.47%	0.47%	0.53%	0.55%	0.58%	0.59%	0.61%	0.63%
6 Mon T-Bill	0.23%	0.39%	0.48%	0.43%	0.47%	0.38%	0.38%	0.45%	0.35%	0.37%	0.46%	0.43%
2Yr T-Note	0.73%	0.93%	1.05%	0.78%	0.78%	0.72%	0.78%	0.88%	0.58%	0.66%	0.81%	0.76%
SCC WAM	500	482	402	418	428	428	399	417	439	504	504	533
LAIF WAM	200	183	179	167	159	152	164	167	167	169	162	165



Santa Clara County

Approved Issuers and Broker/Dealers

September 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
September 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 \$65 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