

# County of Santa Clara



## Finance Agency Controller-Treasurer Department

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August 15, 2017

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 

SUBJECT: COUNTY OF SANTA CLARA TREASURY INVESTMENT PORTFOLIO STATUS

### RECOMMENDATION

Receive and file the June 30, 2017 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, 2017 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	\$6,730,196,172	\$6,714,607,595	(\$15,588,577)	(0.23%)

The yield of the pool on June 30, 2017 was 1.25%. As a comparison, on June 30, 2017 the yield of a 6-month Treasury Bill was 1.13%. A two-year Treasury Note was 1.38%. The State of California Local Agency Investment Fund (LAIF) yield was 0.98%.

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.

Attachments:

June 2017 Quarterly Investment Summary



# Quarterly Investment Report

June 30, 2017

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## Quarterly Investment Review Table of Contents

### Quarterly Investment Report Table of Contents

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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

June 30, 2017

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$6,730,196,172	\$6,714,607,595	-\$15,588,577	-0.23%
Worker's Compensation	\$27,883,395	\$27,941,817	\$58,422	0.21%
Park Charter Fund	\$4,107,787	\$4,108,947	\$1,159	0.03%
San Jose-Evergreen	\$20,095,477	\$20,142,574	\$47,097	0.23%
Medical Malpractice Insurance Fund (1)	\$9,098,495	\$9,081,592	-\$16,903	-0.19%
<b>Total</b>	<b>\$6,791,381,326</b>	<b>\$6,775,882,524</b>	<b>-\$15,498,802</b>	<b>-0.23%</b>

(1) Managed by Chandler Asset Management, Inc.

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

Fund	2017			2016
	<u>Apr 30</u>	<u>May 31</u>	<u>Jun 30</u>	<u>Jun 30</u>
Commingled Investment Pool	0.99%	1.18%	1.25%	0.90%
Worker's Compensation	1.43%	1.40%	1.42%	1.20%
<b>Weighted Yield</b>	<b>1.13%</b>	<b>1.18%</b>	<b>1.25%</b>	<b>0.90%</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, 2017

During the June 14, 2017 meeting of the Federal Reserve Bank (Fed), policy makers decided to increase interest rates for the third time in six months. The Fed had kept rates at near zero from the end of 2008 through most of 2015. Policy makers began lifting the bank's benchmark lending rate in equal increments of 25 basis points (a quarter of one percent) in December 2015. The Fed hiked rates again in December 2016 and most recently in March 2017. This specific rate applies to overnight loans charged among large banks. It is widely expected that the new rate will fluctuate in a range between 1 percent and 1.25 percent.

Policy makers have reiterated their resolve to further increase interest rates in 2017 continuing into 2018 and 2019 while acknowledging that inflation is occurring at a pace much slower than anticipated. The Fed has hiked rates with the express intent of constraining inflation growth, but lately, inflation growth has been decelerating. The personal consumption expenditures price index (PCE deflator), the inflation measure, favored by policy makers grew by only 1.4 percent over the past twelve months ending in June and has dropped for four consecutive months since February. The consumer price index (CPI), after excluding volatile categories such as food and energy prices, rose 1.7 percent over the past twelve months ending in June, a reduction compared to the 2.2 percent rise measured in March. Policy makers who gauge growth in excess of 2 percent as inflationary feel it is too early for concern over recent inflationary weakness. Policy makers cite non-recurring, one-time events as factors causing recent inflation trends and contend that an ever-tightening job market eventually will boost wages further and cause inflation to accelerate.

Although June's unemployment rate of 4.4 percent barely changed from the prior month, the overall trend in employment growth remains more than robust enough to keep the unemployment rate trending lower. Non-farm payrolls increased by 222.0 thousand jobs during the month. Many economists along with Federal Reserve policy makers comfortably conclude the labor market is at or near full employment. This means that most workers who are seeking a job can find one and businesses are left struggling to find qualified workers in an increasingly tighter market.

Historically, during this stage of the cycle, wage growth quickly accelerates. So far, this has not occurred. Average hourly earnings for private-sector workers over 12 months ending in June, 2017 rose only by 2.5 percent (63 cents), the same annual growth rate in late 2015. This was unchanged from May's reading, a month earlier. Economists suspect that the global labor market, a source for alternative cheaper labor may be constraining U.S. wages. A more persuasive explanation is that corporations are reluctant to raise pay, in part to protect their profit margins particularly, in the absence of rebounding revenues. Job openings are currently at an all-time high because some employers have delayed hiring to avoid paying elevated levels for the talent matching their requirements. It is also important to keep in mind the statistical impact of recent trends in job growth which has tilted toward lower wage fields including work at restaurants and retail stores. Although, minimum-wage increases in many states have boosted pay in those low paying sectors, employment growth in those fields reduces the average wage gains as measured across all jobs.

The 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. These risk curbing rules include the international regulatory framework for banks called Basel III and the U.S. 2010 Dodd-Frank Law. With more efficient software, the Treasury Division is addressing this issue by having increased its capability to review a larger volume of inventory listings to find attractive bonds. Portfolio structuring does not rely on interest rate anticipation strategies. These are strategies which primarily speculate on the direction of interest rates as a means to earn favorable returns.



## Santa Clara County Commingled Pool and Segregated Investments

### Portfolio Compliance, Review, and Monitoring

June 30, 2017

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

The yield of the Commingled Pool is 1.25 and the weighted average life is 528 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.

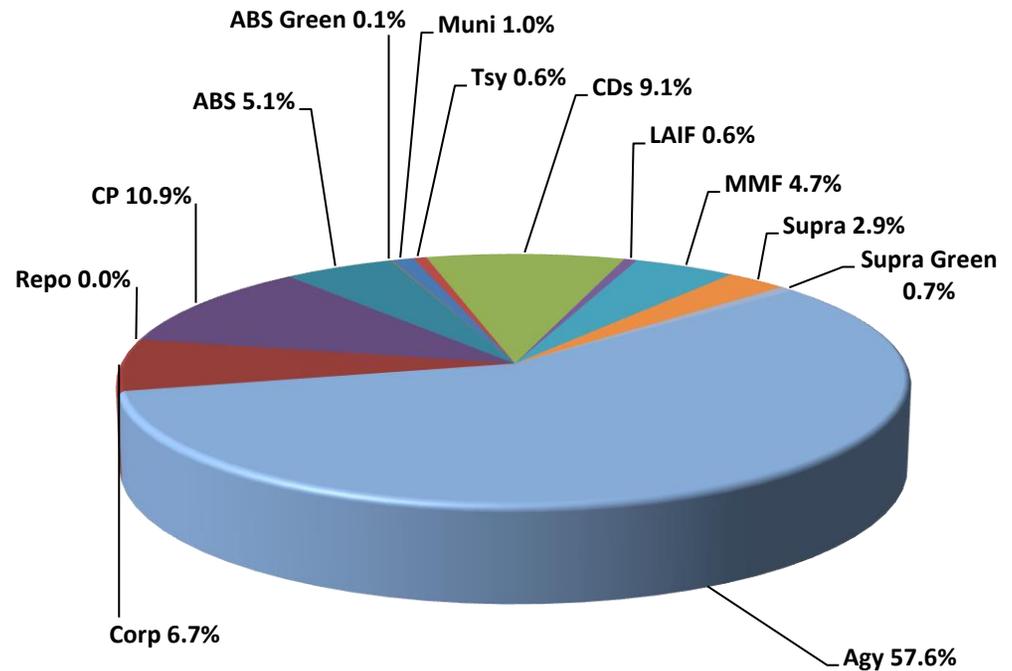


## Santa Clara County Commingled Pool

### Allocation by Security Types

June 30, 2017

Sector	6/30/2017	3/31/2017	% Chng
Federal Agencies	57.60%	55.16%	2.4%
Corporate Bonds	6.72%	7.16%	-0.4%
Repurchase Agreements	0.00%	0.00%	0.0%
Commercial Paper	10.90%	6.31%	4.6%
ABS	5.13%	4.47%	0.7%
ABS Green Bonds	0.06%	0.06%	0.0%
Municipal Securities	1.02%	1.05%	0.0%
U.S. Treasuries	0.60%	0.77%	-0.2%
Negotiable CDs	9.14%	6.18%	3.0%
LAIF	0.60%	0.62%	0.0%
Money Market Funds	4.71%	15.13%	-10.4%
Supranationals	2.86%	2.40%	0.5%
Supranationals Green Bonds	0.67%	0.69%	0.0%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	



Sector	6/30/2017	3/31/2017
Federal Agencies	3,876,524,363	3,613,374,765
Corporate Bonds	452,223,802	469,232,374
Repurchase Agreements	-	-
Commercial Paper	733,603,055	413,372,894
ABS	345,532,895	292,660,894
ABS Green Bonds	3,999,855	3,999,842
Municipal Securities	68,569,877	68,580,743
U.S. Treasuries	40,185,238	50,278,980
Negotiable CDs	615,001,313	405,000,000
LAIF	40,376,758	40,299,659
Money Market Funds	316,813,402	991,145,531
Supranational	192,365,614	157,442,925
Supranationals Green Bonds	45,000,000	45,000,000
<b>Total</b>	<b>6,730,196,172</b>	<b>6,550,388,607</b>

Amounts are based on book value

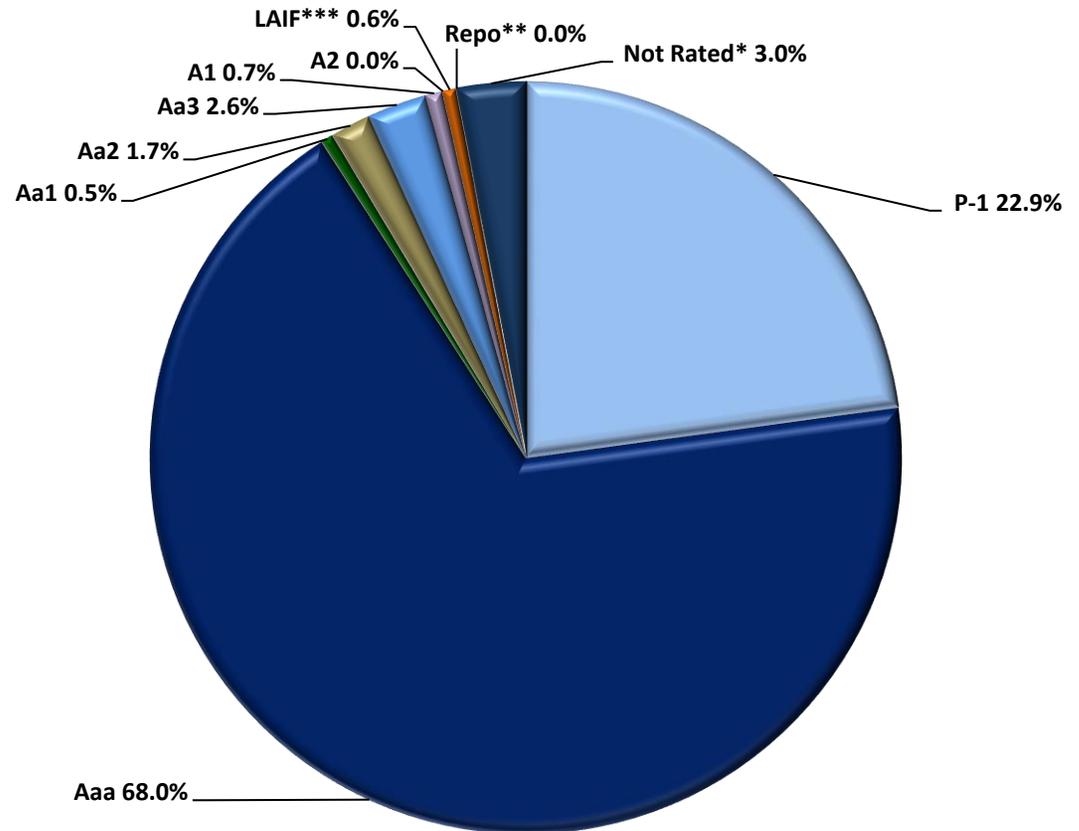


## Santa Clara County Commingled Pool

### Allocation by Ratings

June 30, 2017

Moody's Rating	Portfolio \$	Portfolio %
P-1	1,538,309,252	22.9%
Aaa	4,576,802,180	68.0%
Aa1	34,978,407	0.5%
Aa2	116,232,873	1.7%
Aa3	174,215,350	2.6%
A1	49,823,469	0.7%
A2	-	0.0%
A3	-	0.0%
LAIF***	40,376,758	0.6%
Repo**	-	0.0%
Not Rated*	199,457,883	3.0%
<b>Total</b>	<b>6,730,196,172</b>	<b>100.0%</b>



\*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

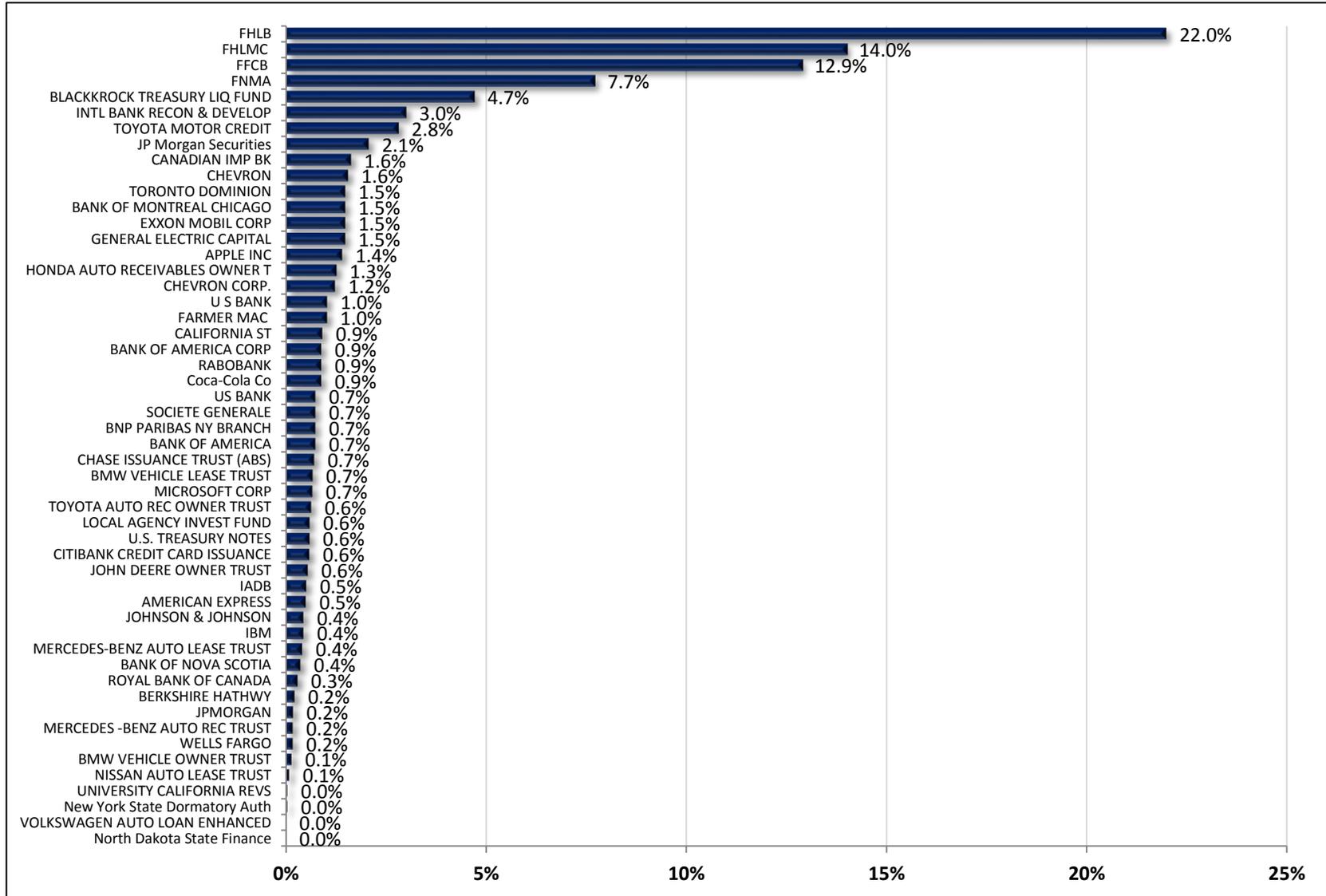
Amounts are based on book values



# Santa Clara County Commingled Pool

## Holdings by Issuer - Percent of Commingled Pool

June 30, 2017



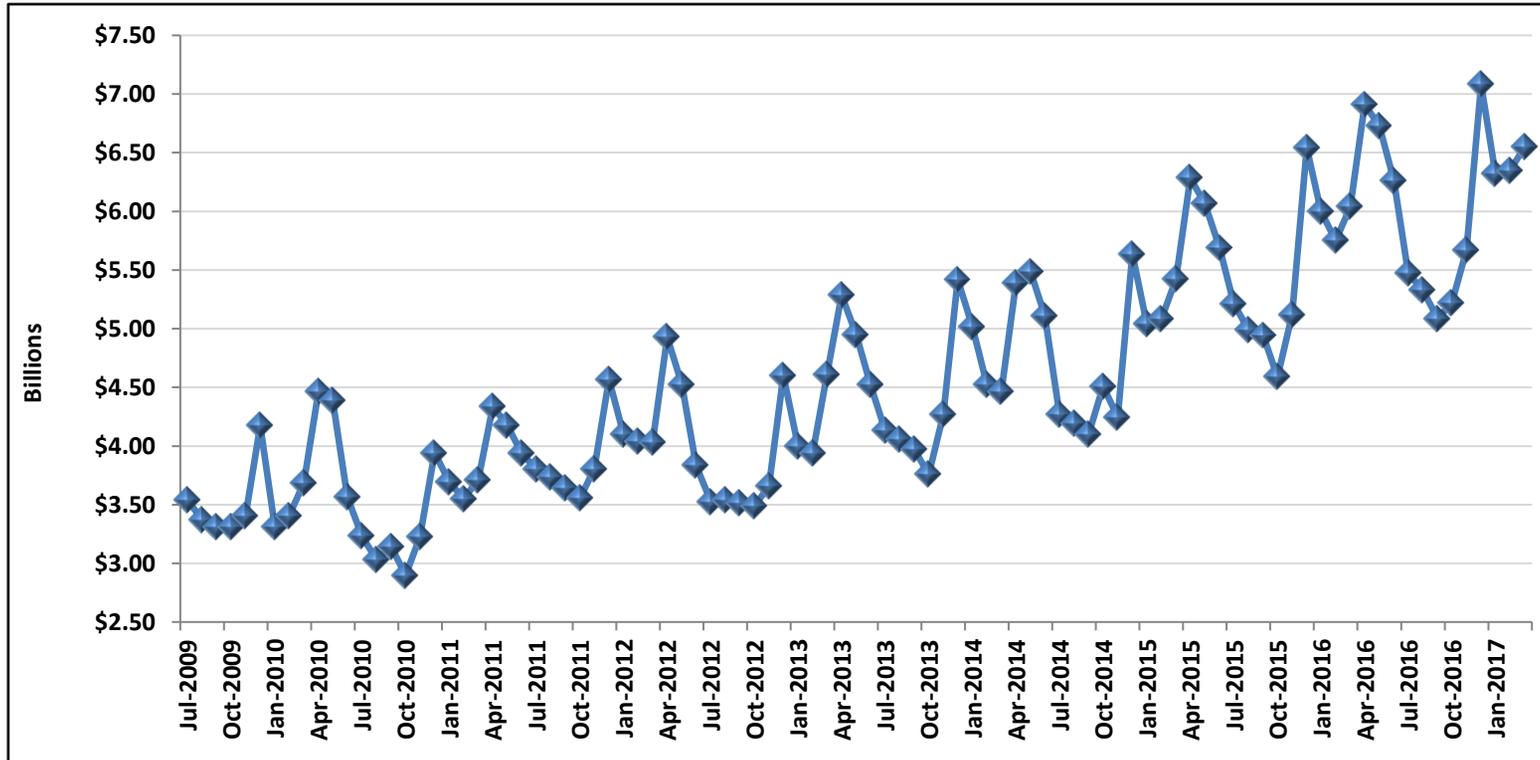
Amounts are based on book values



# Santa Clara County Commingled Pool

## Historical Month End Book Values

June 30, 2017



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	\$5.220	\$5.671	\$7.082	\$6.319	\$6.348	\$6.550	\$7.556	\$7.469	\$6.730

Amounts in billions

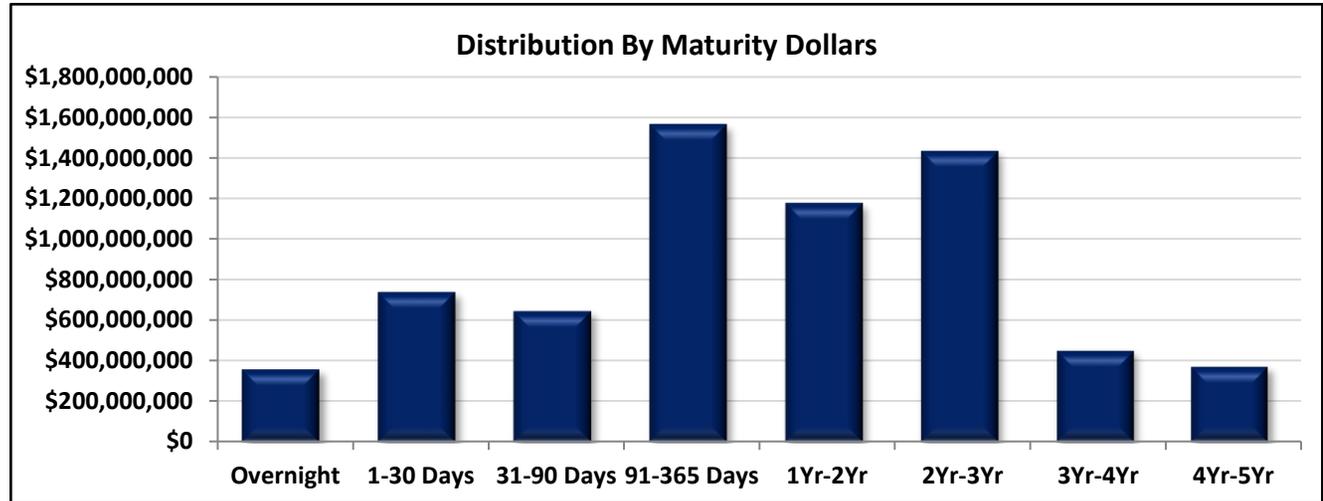


# Santa Clara County Commingled Pool

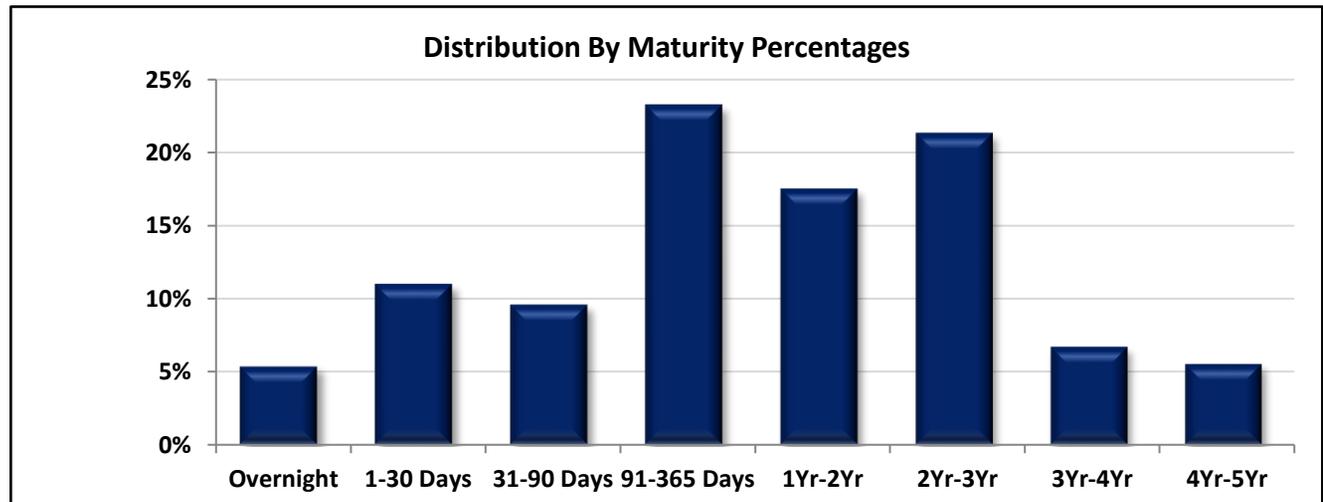
## Distribution by Maturity

June 30, 2017

Maturity	Amount*
Overnight	357,190,160
1-30 Days	737,276,764
31-90 Days	642,896,258
91-365 Days	1,564,455,132
1Yr-2Yr	1,176,985,566
2Yr-3Yr	1,432,947,422
3Yr-4Yr	449,254,162
4Yr-5Yr	369,190,710
	6,730,196,172



Maturity	Amount*
Overnight	5.31%
1-30 Days	10.95%
31-90 Days	9.55%
91-365 Days	23.25%
1Yr-2Yr	17.49%
2Yr-3Yr	21.29%
3Yr-4Yr	6.68%
4Yr-5Yr	5.49%
	100.00%



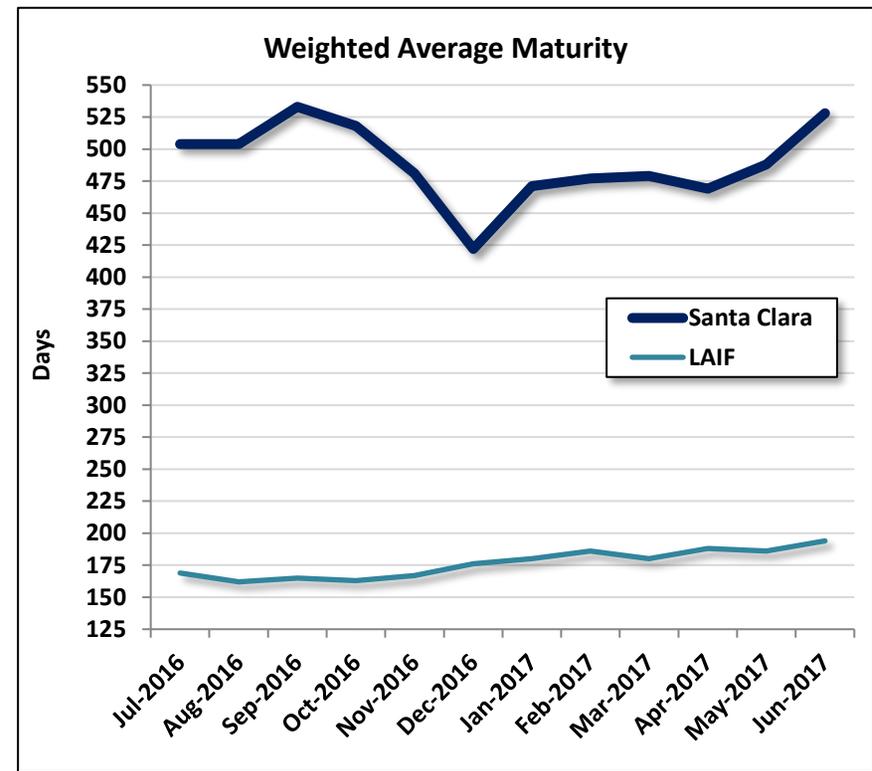
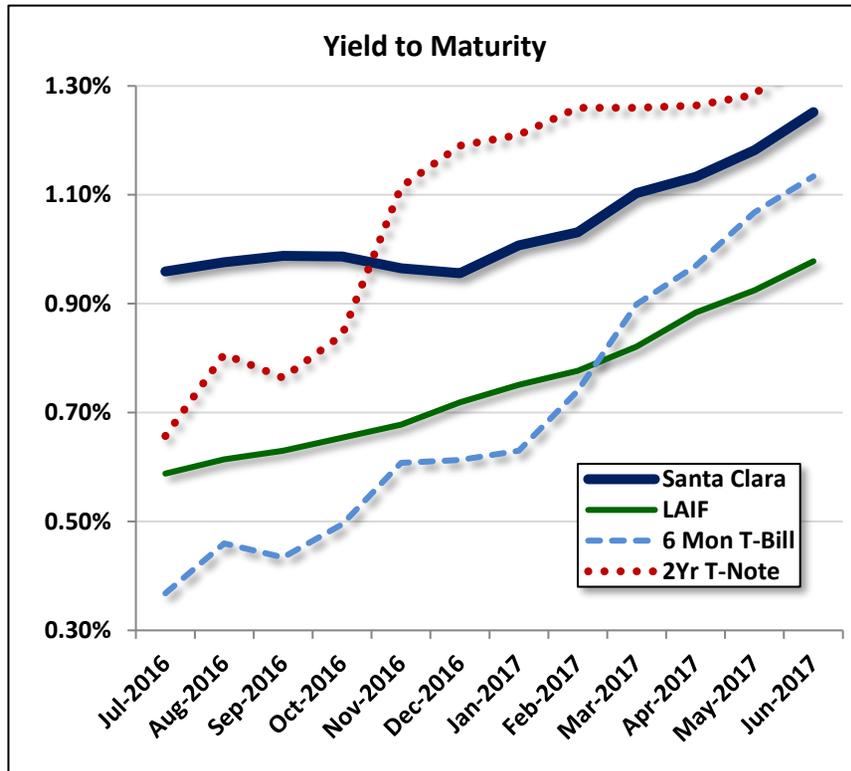
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

June 30, 2017



Item	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
SCC YTM	0.96%	0.98%	0.99%	0.99%	0.97%	0.96%	1.01%	1.03%	1.10%	1.13%	1.18%	1.25%
LAIF YTM	0.59%	0.61%	0.63%	0.65%	0.68%	0.72%	0.75%	0.78%	0.82%	0.88%	0.93%	0.98%
6 Mon T-Bill	0.37%	0.46%	0.43%	0.50%	0.61%	0.61%	0.63%	0.74%	0.90%	0.97%	1.07%	1.13%
2Yr T-Note	0.66%	0.81%	0.76%	0.84%	1.12%	1.19%	1.21%	1.26%	1.26%	1.26%	1.28%	1.38%
SCC WAM	504	504	533	518	481	422	471	477	479	469	488	528
LAIF WAM	169	162	165	163	167	176	180	186	180	188	186	194



## Santa Clara County

### Approved Issuers and Broker/Dealers

June 30, 2017

#### Direct Commercial Paper Issuers

General Electric  
Toyota Motor Credit  
US Bank, NA

#### Broker/Dealers

Bank of America Merrill Lynch  
Barclays Capital, Inc  
BMO Capital Markets  
BNP Paribas Securities Corp  
BNY Mellon Capital Markets, LLC  
Brean Capital LLC  
Cantor Fitzgerald & Co  
Citigroup Global Markets Inc  
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  
Mizuho Securities USA, Inc  
Piper Jaffray & Co  
Raymond James, Inc.  
RBC Capital Markets, Inc  
Stifel Nicolaus & Co  
Suntrust Robinson Humphrey Inc  
UBS Financial Services Inc  
Vining Sparks LP  
Williams Capital

**Santa Clara County Commingled Pool**  
**Compliance with Investment Policy**  
**June 30, 2017**



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