

# County of Santa Clara



## Finance Agency Controller-Treasurer Department

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November 17, 2017

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 September 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 September 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	\$5,405,118,378	\$5,390,123,180	-\$14,995,197	-0.28%

The yield of the pool on September 30, 2017 was 1.32%. As a comparison, on September 30, 2017 the yield of a 6-month Treasury Bill was 1.19%. A two-year Treasury Note was 1.49%. The State of California Local Agency Investment Fund (LAIF) yield was 1.11%.

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 and selected interest rates.

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:

September 2017 Quarterly Investment Summary



# Quarterly Investment Report

September 30, 2017

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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: Park Charter Fund	25
Holdings Report: San Jose-Evergreen	26
Transaction Activity Report	28

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, 2017

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$5,405,118,378	\$5,390,123,180	-\$14,995,197	-0.28%
Worker's Compensation	\$27,954,085	\$27,992,658	\$38,574	0.14%
Park Charter Fund	\$4,122,176	\$4,121,134	-\$1,042	-0.03%
San Jose-Evergreen	\$20,194,232	\$20,259,473	\$65,240	0.32%
Medical Malpractice Insurance Fund (1)	\$9,131,402	\$9,111,275	-\$20,127	-0.22%
<b>Total</b>	<b>\$5,466,520,273</b>	<b>\$5,451,607,721</b>	<b>-\$14,912,552</b>	<b>-0.27%</b>

(1) Managed by Chandler Asset Management, Inc.

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

Fund	2017			2016
	<u>Jul 31</u>	<u>Aug 31</u>	<u>Sep 30</u>	<u>Sep 30</u>
Commingled Investment Pool	0.99%	1.29%	1.32%	1.02%
Worker's Compensation	1.43%	1.38%	1.38%	1.20%
<b>Weighted Yield</b>	<b>1.29%</b>	<b>1.29%</b>	<b>1.32%</b>	<b>1.02%</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

September 30, 2017

Gross domestic product, the broadest measure of goods and services produced in the U.S., grew at a 3 percent annual rate in the third quarter ending September 30, 2017. A number of measures underscore that the U.S. economy is in good health. Third quarter growth sustained the strength of the prior quarter's 3.1 percent growth and affirmed that much of the economic disruption caused by storm damage from hurricanes Harvey and Irma will likely fade relatively quickly. The 4.1 unemployment rate is the lowest since December 2000. Earnings of large corporations are rising at a healthy pace and consumer confidence is strong. Although September retail sales reflected a sharp increase as a result of rebuilding efforts in the wake of recent hurricanes, economists expect a more normal consumer-driven growth pattern will resume shortly and the trend of underlying economic expansion will continue intact.

Including the results of non-farm payroll growth from October 2017, the labor market has now expanded for 85 consecutive months. This is the longest uninterrupted stretch of growth on record. September's muted job growth due to storm damage had been widely expected. A post-hurricane rebound in October with job growth of 261,000 comfortably offset September's results. October's expansion was driven by those displaced workers returning to work as well as a boost coming from rebuilding and recovery efforts. Additionally, the Labor Department upwardly revised August payrolls from a previously reported increase of 169,000 to a final reading for the month of 208,000, a notably improved picture of job growth during the late summer.

Although labor market trends appear strong, it is important to note that more than half of the increase in U.S. employment from 2011 to 2015 occurred in the nation's most prosperous postal codes. Uneven economic gains resulting from payroll growth was a conclusion published in a recent study released by the Economic Innovation Group, a Washington, D.C. researcher. Among the country's 100 largest cities, the top 10 most prosperous are located in Texas or the West, including the major tech hubs of Silicon Valley. Rust belt metros including Cleveland, Buffalo and Detroit ranked among the most "distressed postal codes" and benefited from the least payroll growth. This region is the home of to 52.3 million Americans, 17 percent of the population).

Given the current strength of the U.S. economy, a strong likelihood exists that Federal Reserve Bank (Fed) policy makers will raise interest rates again in December 2017. Policy makers have raised rates by a quarter percentage point four times since late 2015 and most recently in June to a range between 1 and 1.25 percent. Despite consistent hikes by the Fed, the ten-year U.S. Treasury yields have been consistently between 2.01 percent and 2.63 percent throughout 2017. Low expectations about future inflation and record low interest rates around the world has unleashed an unprecedented demand from overseas investors for U.S. domestic bonds. Even the municipal market, still largely considered a low-yielding haven for risk-averse Americans seeking tax-exempt income, has benefited from increased demand from foreign investors. Foreign volume in this market sector has increased three-fold over the last decade.

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. The Treasury Division has 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, 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

September 30, 2017

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

The yield of the Commingled Pool is 1.32 and the weighted average life is 573 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.

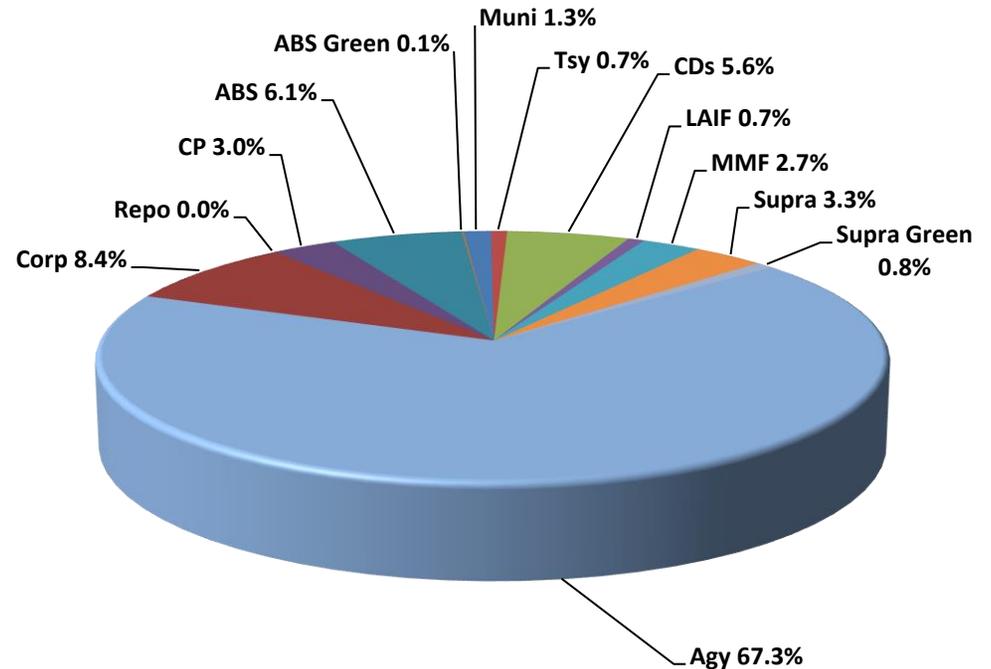


## Santa Clara County Commingled Pool

### Allocation by Security Types

September 30, 2017

Sector	9/30/2017	6/30/2017	% Chng
Federal Agencies	67.26%	57.60%	9.7%
Corporate Bonds	8.37%	6.72%	1.6%
Repurchase Agreements	0.00%	0.00%	0.0%
Commercial Paper	2.95%	10.90%	-7.9%
ABS	6.06%	5.13%	0.9%
ABS Green Bonds	0.07%	0.06%	0.0%
Municipal Securities	1.27%	1.02%	0.2%
U.S. Treasuries	0.74%	0.60%	0.1%
Negotiable CDs	5.64%	9.14%	-3.5%
LAIF	0.75%	0.60%	0.1%
Money Market Funds	2.73%	4.71%	-2.0%
Supranationals	3.33%	2.86%	0.5%
Supranationals Green Bonds	0.83%	0.67%	0.2%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	



Sector	9/30/2017	6/30/2017
Federal Agencies	3,635,253,077	3,876,524,363
Corporate Bonds	452,217,763	452,223,802
Repurchase Agreements	-	-
Commercial Paper	159,597,007	733,603,055
ABS	327,581,521	345,532,895
ABS Green Bonds	3,999,868	3,999,855
Municipal Securities	68,559,010	68,569,877
U.S. Treasuries	40,139,823	40,185,238
Negotiable CDs	305,000,680	615,001,313
LAIF	40,469,740	40,376,758
Money Market Funds	147,424,771	316,813,402
Supranational	179,875,117	192,365,614
Supranationals Green Bonds	45,000,000	45,000,000
<b>Total</b>	<b>5,405,118,378</b>	<b>6,730,196,172</b>

Amounts are based on book value

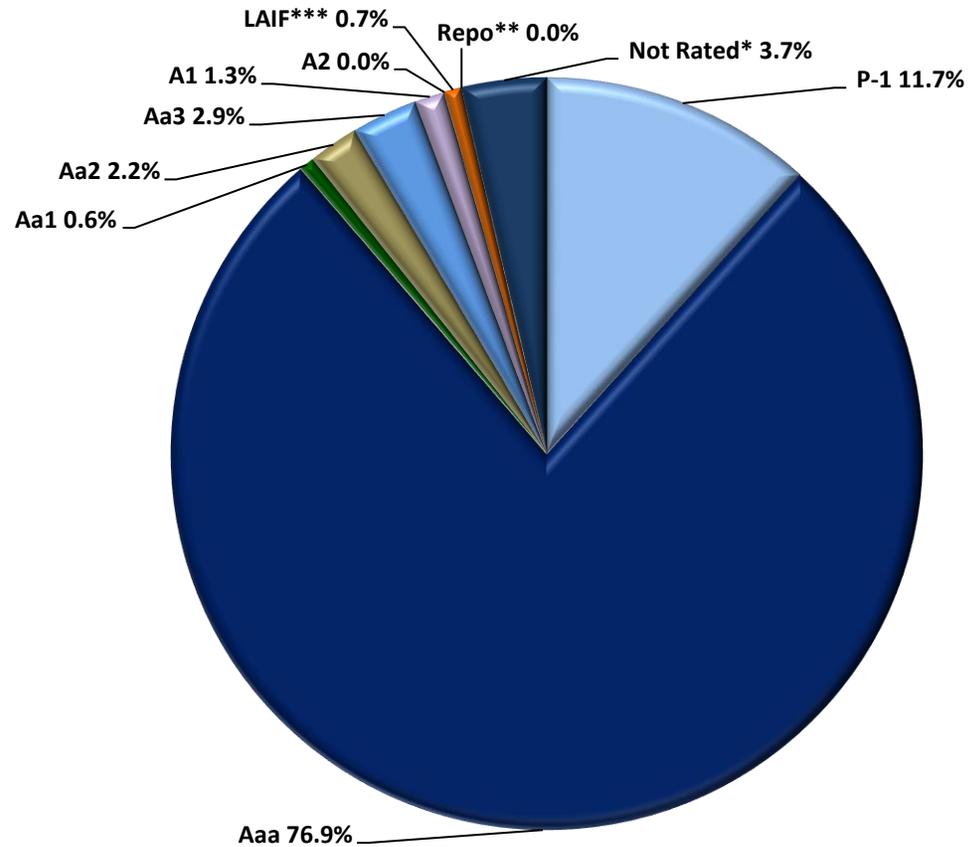


## Santa Clara County Commingled Pool

### Allocation by Ratings

September 30, 2017

Moody's Rating	Portfolio \$	Portfolio %
P-1	634,508,175	11.7%
Aaa	4,156,813,733	76.9%
Aa1	34,981,181	0.6%
Aa2	116,237,246	2.2%
Aa3	154,212,597	2.9%
A1	69,801,041	1.3%
A2	-	0.0%
A3	-	0.0%
LAIF***	40,469,740	0.7%
Repo**	-	0.0%
Not Rated*	198,094,664	3.7%
<b>Total</b>	<b>5,405,118,378</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

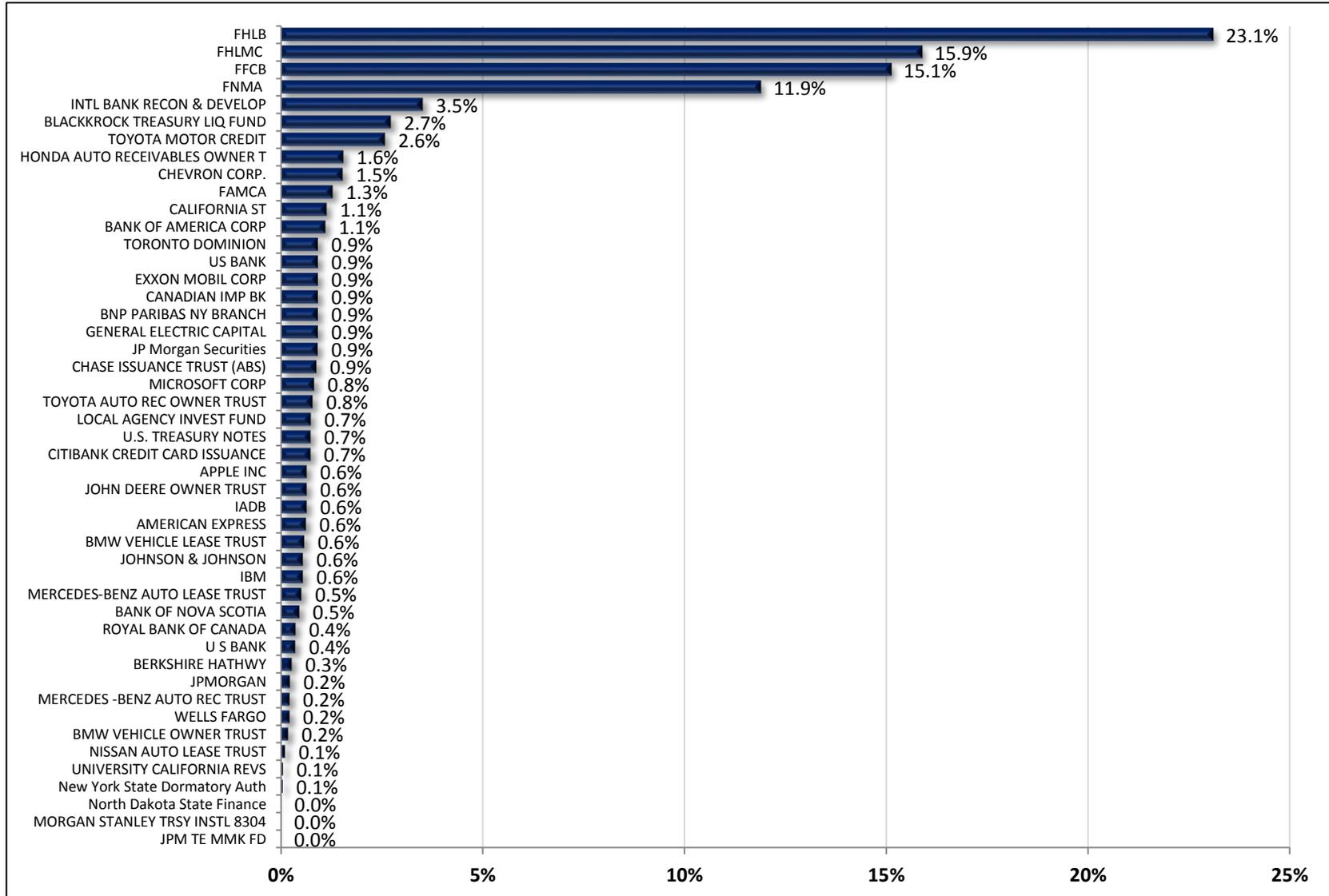
Amounts are based on book values



# Santa Clara County Commingled Pool

## Holdings by Issuer - Percent of Commingled Pool

September 30, 2017



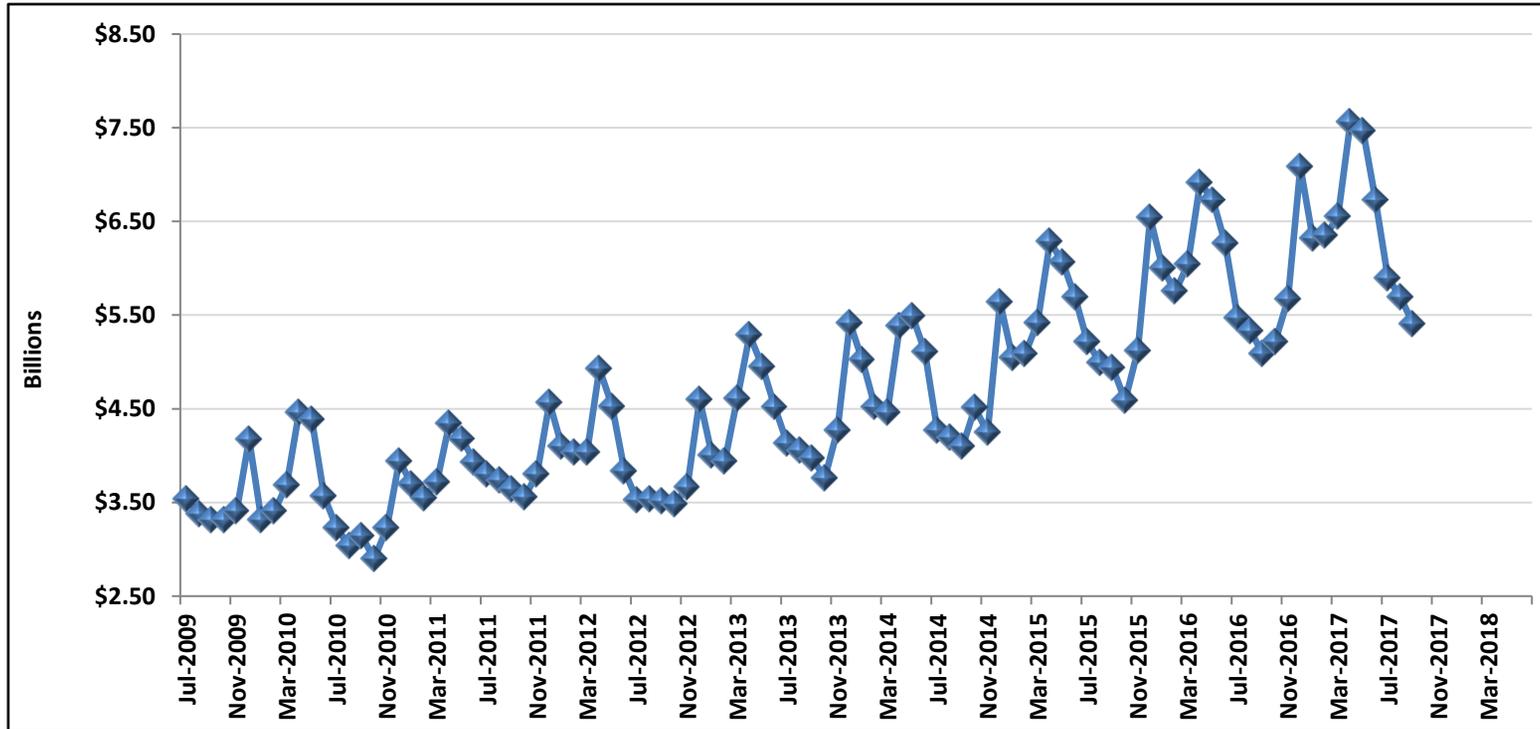
Amounts are based on book values



## Santa Clara County Commingled Pool

### Historical Month End Book Values

September 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
FY 2018	\$5.898	\$5.689	\$5.408									

Amounts in billions

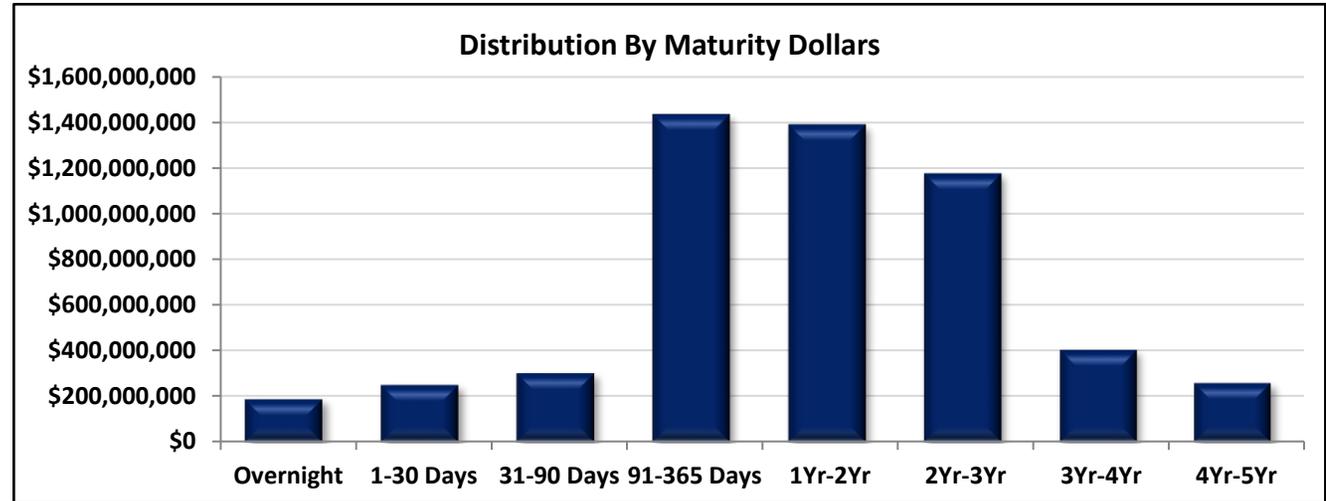


## Santa Clara County Commingled Pool

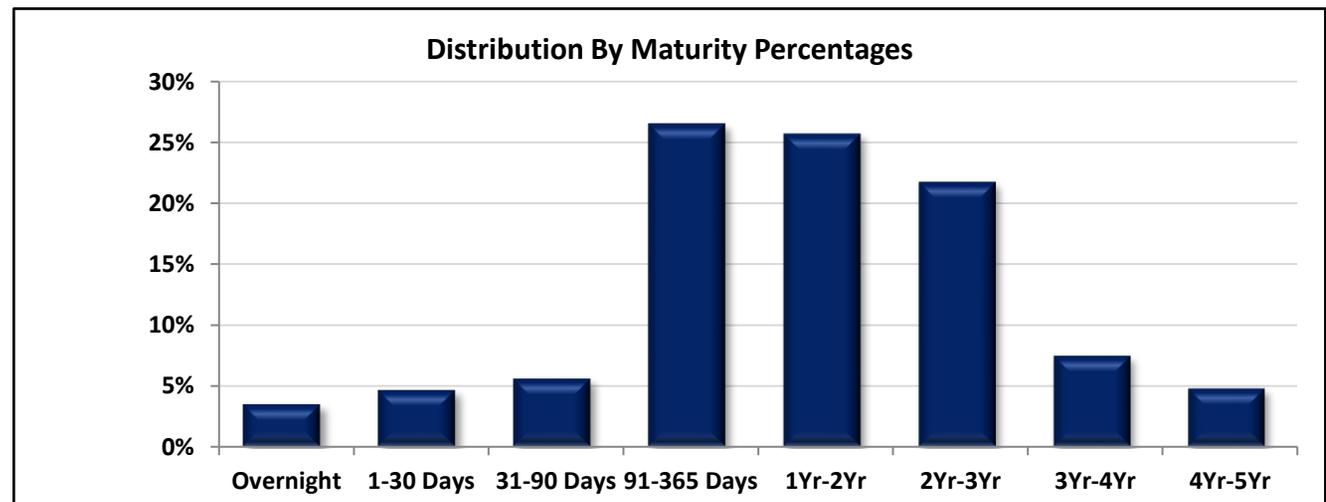
### Distribution by Maturity

September 30, 2017

Maturity	Amount*
Overnight	187,894,511
1-30 Days	250,973,225
31-90 Days	302,536,314
91-365 Days	1,434,677,280
1Yr-2Yr	1,390,204,264
2Yr-3Yr	1,176,100,451
3Yr-4Yr	404,383,153
4Yr-5Yr	258,349,178
	5,405,118,378



Maturity	Amount*
Overnight	3.48%
1-30 Days	4.64%
31-90 Days	5.60%
91-365 Days	26.54%
1Yr-2Yr	25.72%
2Yr-3Yr	21.76%
3Yr-4Yr	7.48%
4Yr-5Yr	4.78%
	100.00%



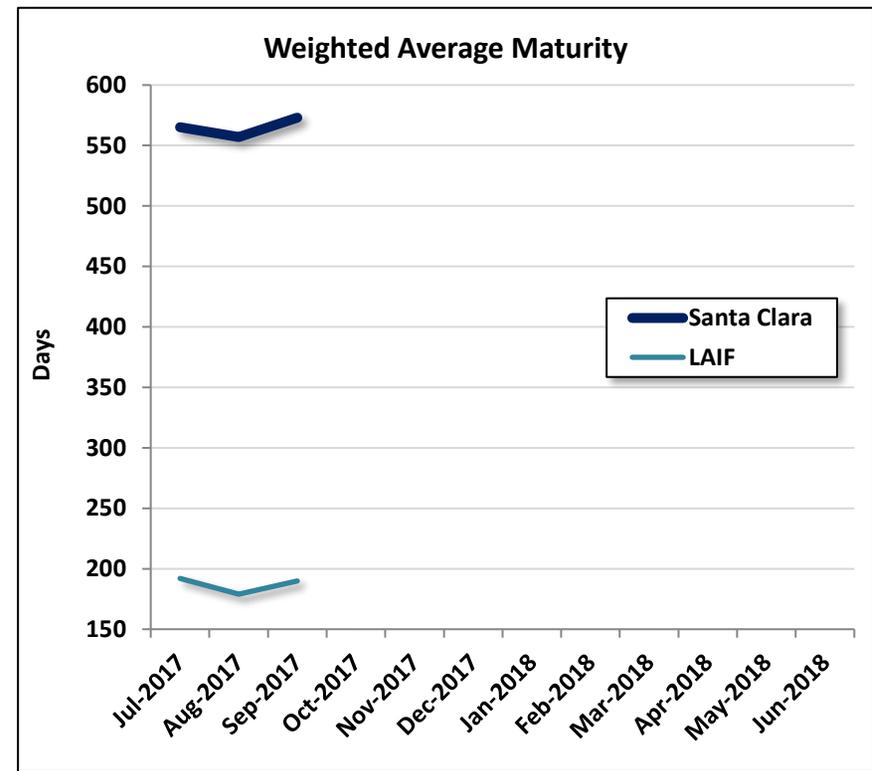
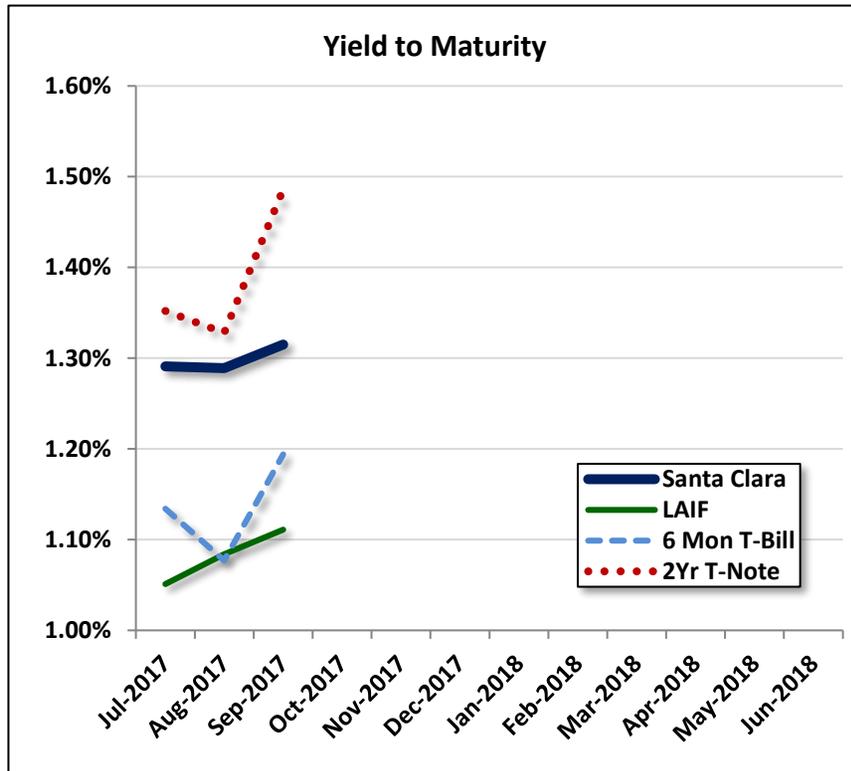
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

September 30, 2017



Item	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
SCC YTM	1.29%	1.29%	1.32%									
LAIF YTM	1.05%	1.08%	1.11%									
6 Mon T-Bill	1.13%	1.08%	1.19%									
2Yr T-Note	1.35%	1.33%	1.49%									
SCC WAM	565	557	573									
LAIF WAM	192	179	190									



## Santa Clara County

### Approved Issuers and Broker/Dealers

September 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**  
**September 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