

County of Santa Clara



Finance Agency Controller-Treasurer Department

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May 29, 2018

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 March 31, 2018 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, 2018 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	\$7,472,041,604	\$7,414,085,280	(\$57,956,323)	(0.78%)

The yield of the pool on March 31, 2018 was 1.60%. As a comparison, on March 31, 2018 the yield of a 6-month Treasury Bill was 1.91%. A two-year Treasury Note was 2.27%. The State of California Local Agency Investment Fund (LAIF) yield was 1.52%.

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:

March 2018 Quarterly Investment Summary



Quarterly Investment Report

March 31, 2018



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

March 31, 2018

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$7,472,041,604	\$7,414,085,280	-\$57,956,323	-0.78%
Worker's Compensation	\$28,155,238	\$28,057,803	-\$97,434	-0.35%
Park Charter Fund	\$4,148,841	\$4,122,335	-\$26,505	-0.64%
San Jose-Evergreen	\$17,219,640	\$17,151,249	-\$68,391	-0.40%
Medical Malpractice Insurance Fund (1)	\$9,187,743	\$9,049,102	-\$138,640	-1.51%
Total	\$7,530,753,065	\$7,472,465,771	-\$58,287,294	-0.77%

(1) Managed by Chandler Asset Management, Inc.

Summary of Yields* for Select Santa Clara County Investment Funds

Fund	2018			2017
	<u>Jan 31</u>	<u>Feb 28</u>	<u>Mar 31</u>	<u>Mar 31</u>
Commingled Investment Pool	0.99%	1.54%	1.60%	1.10%
Worker's Compensation	1.44%	1.44%	1.44%	1.40%
Weighted Yield	1.50%	1.54%	1.60%	1.10%

*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, 2018

The U.S. economy grew at a slower pace but generated moderate growth during the first quarter ending March 31, 2018. Gross domestic product (GDP), the value of all goods and services produced in the nation, rose at a 2.3 percent annualized rate. This is a reduction from the prior three quarters in which GDP growth hovered above or near 3 percent. GDP grew 2.9 percent in the last quarter of 2017. Of note, first quarter final sales to domestic purchasers, an important component of GDP, increased at only a 1.6 percent pace. This is the slowest in two years. Sluggishness in first quarter growth appeared broadly dispersed. Consumer spending, 70 percent of the domestic economy, rose by a meager 1.1 percent. Business equipment spending and residential investment also slowed. A reduction across federal, state and local outlays slowed the growth rate of government spending to 1.2 percent from 3 percent in the prior quarter.

Economists generally have assessed first quarter slower growth as transitory. Delayed tax refunds potentially held down consumer spending, weakening the impact of \$1.5 trillion in corporate and individual tax cuts which became effective January 2018. More importantly, gains in disposable income resulting from strengthening labor markets should bolster consumption for the remainder of 2018. Tighter monetary policy and potential changes in U.S. trade and tariff policies could create risks for the domestic economy but most analysts contend the impact of these concerns are still too remote to determine.

Federal Reserve Bank (Fed) policy makers raised interest rates in March and indicated that at least two additional hikes will occur during 2018. Policy makers expressed confidence in their decision which found support from a rate of U.S. price inflation finally exceeding 2 percent, unemployment at 3.9 percent and accelerating wage growth. The Fed lifted the trading range for its benchmark interest rate to 1.5 percent - 1.75 percent from a range of 1.25 percent - 1.5 percent. The gradual pace of interest rate hikes by the Fed has provided support for continued growth in the labor market and economy. Investors expect the Fed to raise interest rates next in June which would be the second time in 2018 and the seventh time since 2015.

Labor Department reports continue to show that demand for U.S. workers remains solid and confirm labor markets are robust enough to help support 3 percent growth in the economy. Employers increased payrolls in March and again in April, pushing the unemployment rate down to 3.9 percent, the lowest since December 2000 and a noteworthy milestone for the current economic recovery. There was approximately one unemployed person per opening in March, compared with 1.9 people when the recession began at the end of 2007.

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 solely rely on interest rate anticipation strategies, which primarily speculate on the direction of interest rates to earn favorable returns.



Santa Clara County Commingled Pool and Segregated Investments

Portfolio Compliance, Review, and Monitoring

March 31, 2018

Yield and Weighted Average Maturity

The yield of the Commingled Pool is 1.60 and the weighted average life is 503 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.



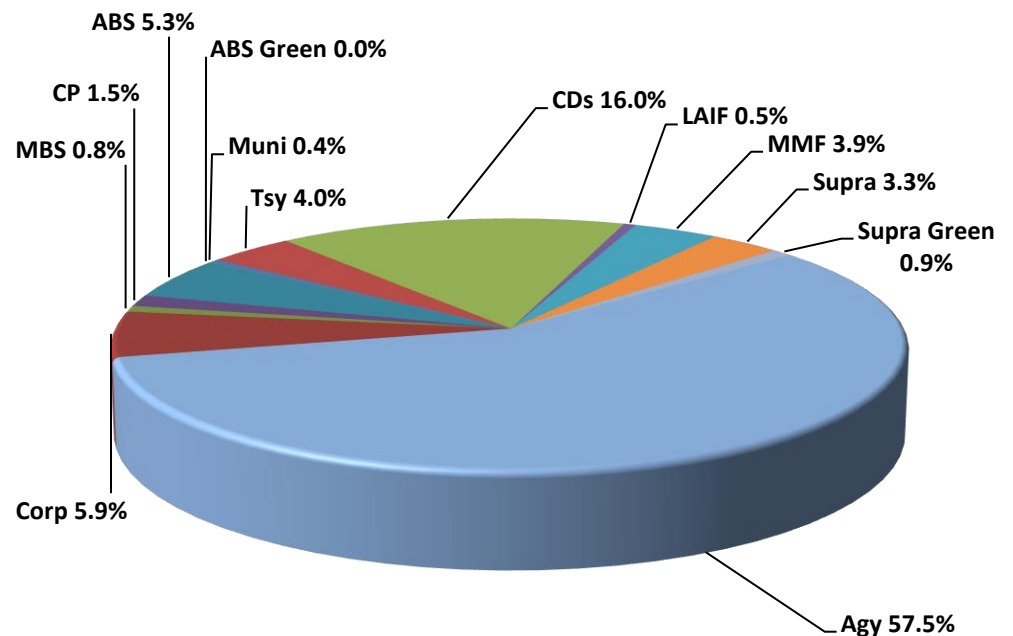
Santa Clara County Commingled Pool

Allocation by Security Types

March 31, 2018

Sector	3/31/2018	12/31/2017	% Chng
Federal Agencies	57.49%	48.70%	8.8%
Corporate Bonds	5.85%	4.61%	1.2%
Mortgage Backed Securities	0.76%	0.00%	0.8%
Commercial Paper	1.46%	8.12%	-6.7%
ABS	5.28%	3.83%	1.5%
ABS Green Bonds	0.04%	0.05%	0.0%
Municipal Securities	0.43%	0.38%	0.0%
U.S. Treasuries	4.00%	1.65%	2.3%
Negotiable CDs	15.99%	17.48%	-1.5%
LAIF	0.54%	0.48%	0.1%
Money Market Funds	3.92%	9.42%	-5.5%
Supranationals	3.28%	4.45%	-1.2%
Supranationals Green Bonds	0.94%	0.83%	0.1%
Total	100.00%	100.00%	

Sector	3/31/2018	12/31/2017
Federal Agencies	4,296,008,000	4,103,491,578
Corporate Bonds	437,414,509	388,253,635
Mortgage Backed Securities	57,053,963	-
Commercial Paper	109,151,654	684,473,271
ABS	394,758,524	322,783,565
ABS Green Bonds	3,087,091	3,899,207
Municipal Securities	32,013,562	32,017,658
U.S. Treasuries	298,655,247	139,350,104
Negotiable CDs	1,195,000,000	1,473,250,383
LAIF	40,702,471	40,579,274
Money Market Funds	293,144,175	793,765,202
Supranational	245,052,408	374,911,187
Supranationals Green Bonds	70,000,000	70,000,000
Total	7,472,041,604	8,426,775,063



Amounts are based on book value

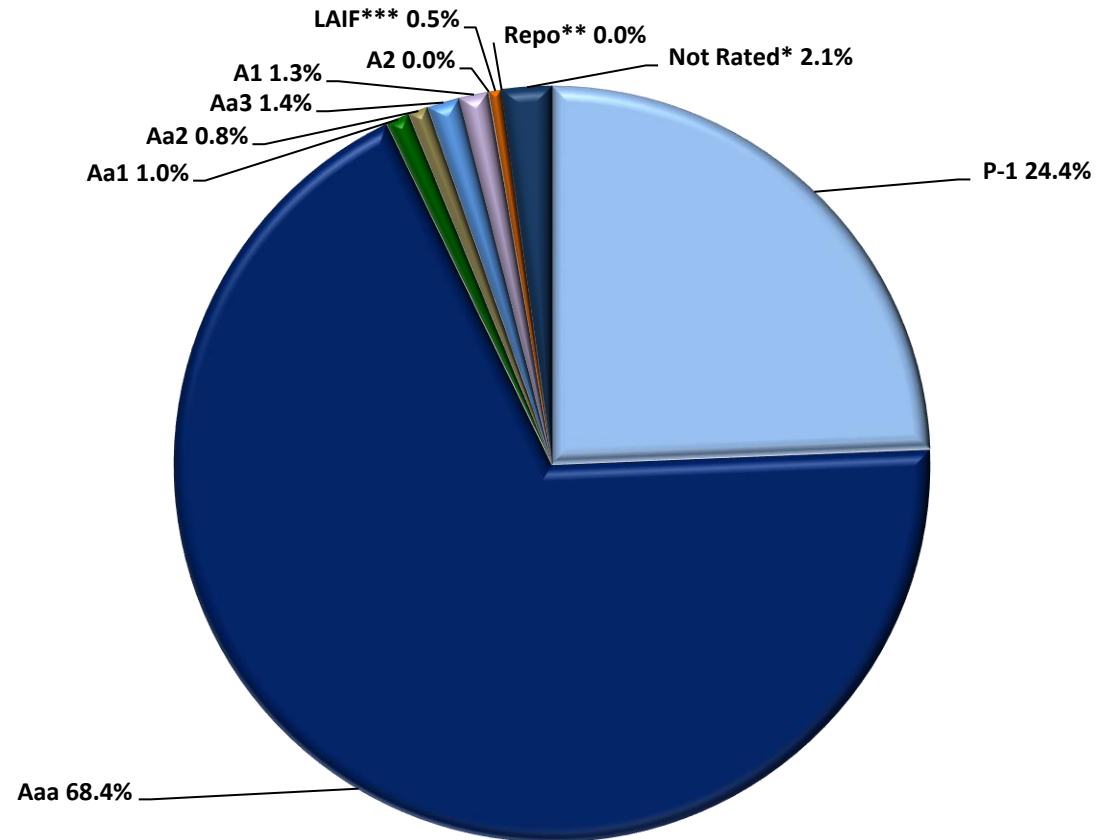


Santa Clara County Commingled Pool

Allocation by Ratings

March 31, 2018

Moody's Rating	Portfolio \$	Portfolio %
P-1	1,820,091,130	24.4%
Aaa	5,113,769,129	68.4%
Aa1	74,953,644	1.0%
Aa2	63,233,655	0.8%
Aa3	103,954,431	1.4%
A1	94,735,515	1.3%
A2	-	0.0%
A3	-	0.0%
LAIF***	40,702,471	0.5%
Repo**	-	0.0%
Not Rated*	160,601,630	2.1%
Total	7,472,041,604	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

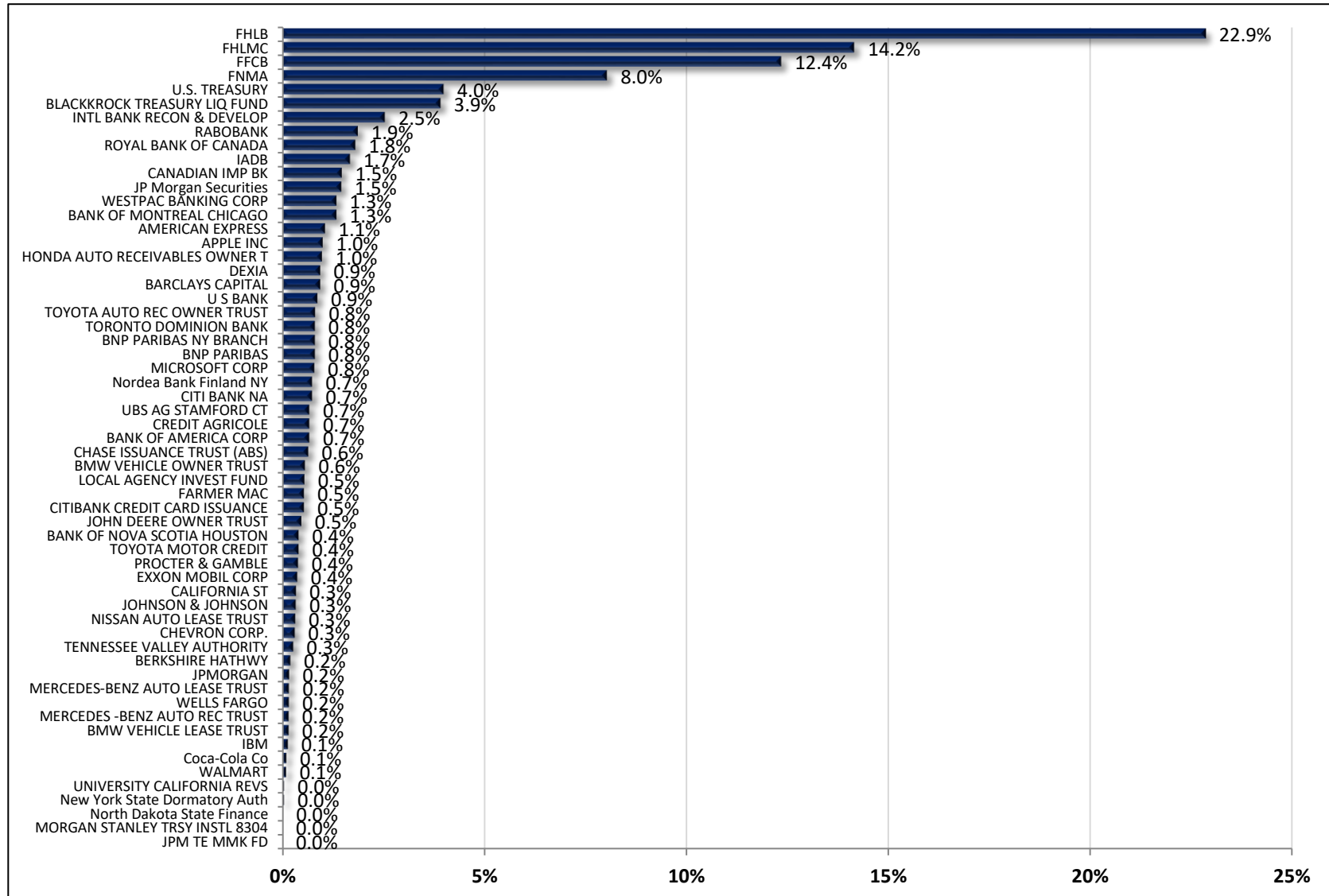
Amounts are based on book values



Santa Clara County Commingled Pool

Holdings by Issuer - Percent of Commingled Pool

March 31, 2018



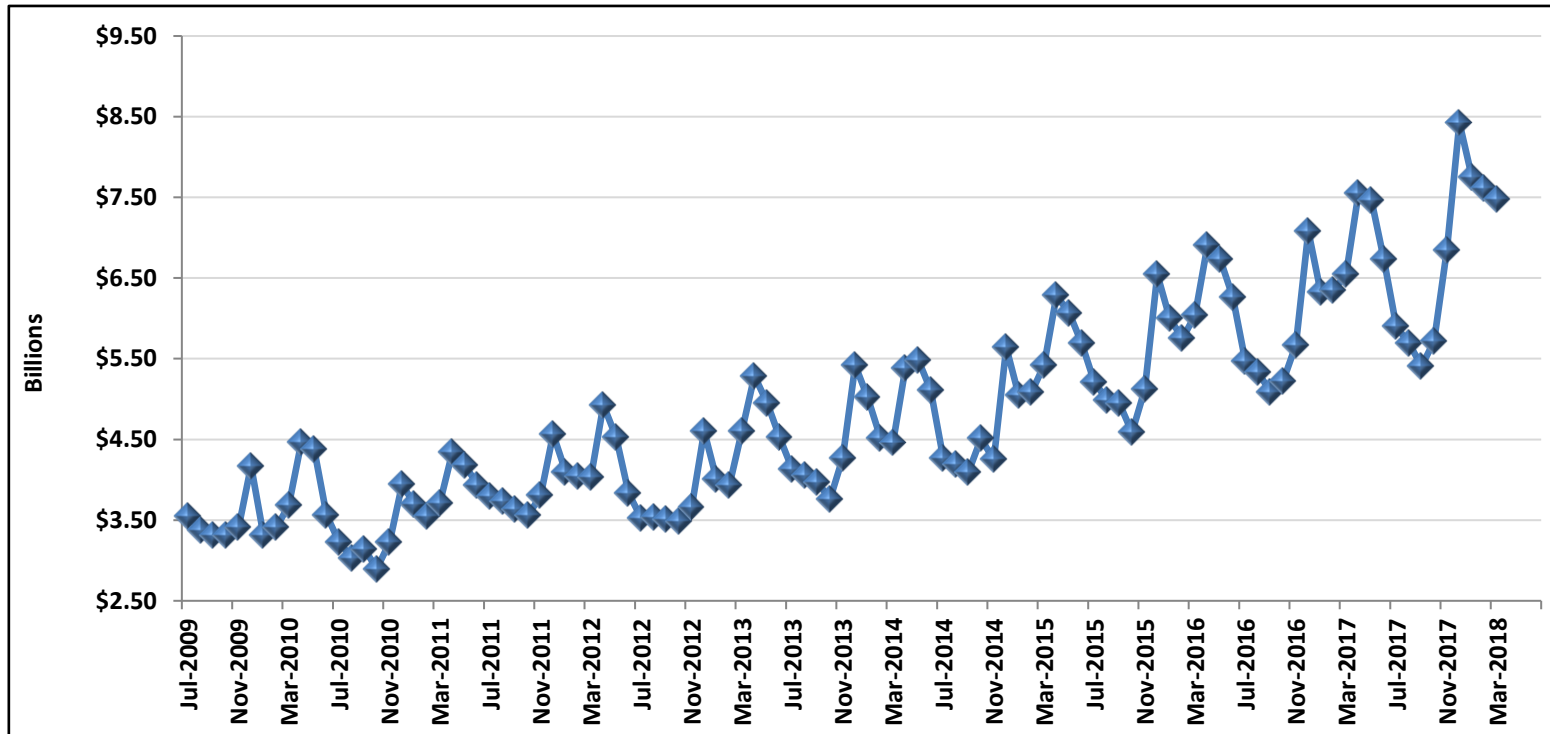
Amounts are based on book values



Santa Clara County Commingled Pool

Historical Month End Book Values

March 31, 2018



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	\$5.720	\$6.850	\$8.427	\$7.754	\$7.608	\$7.472			

Amounts in billions

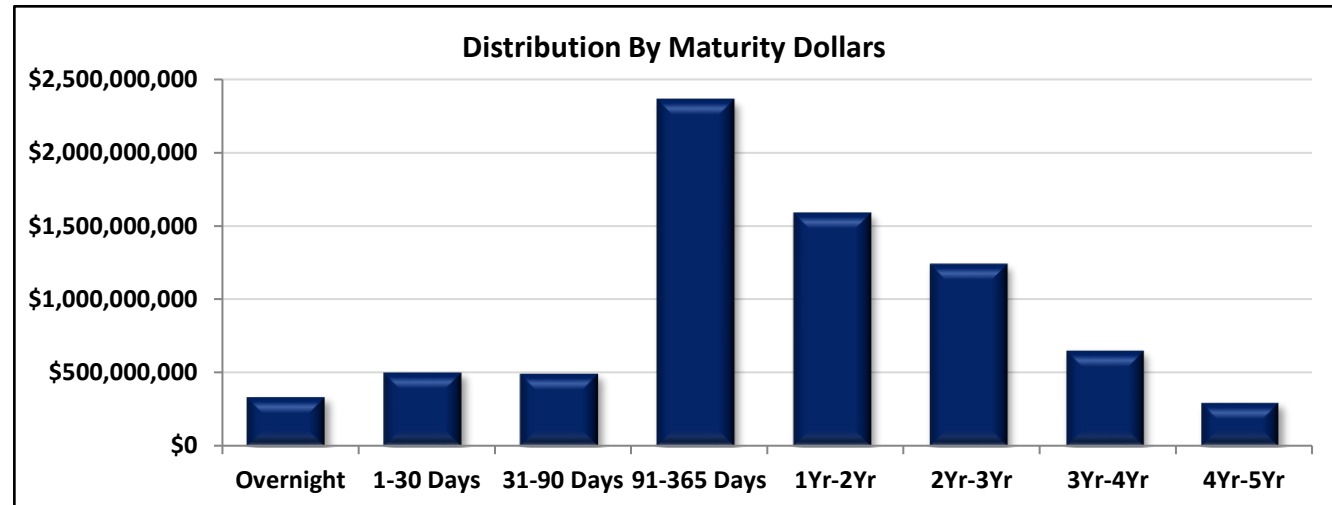


Santa Clara County Commingled Pool

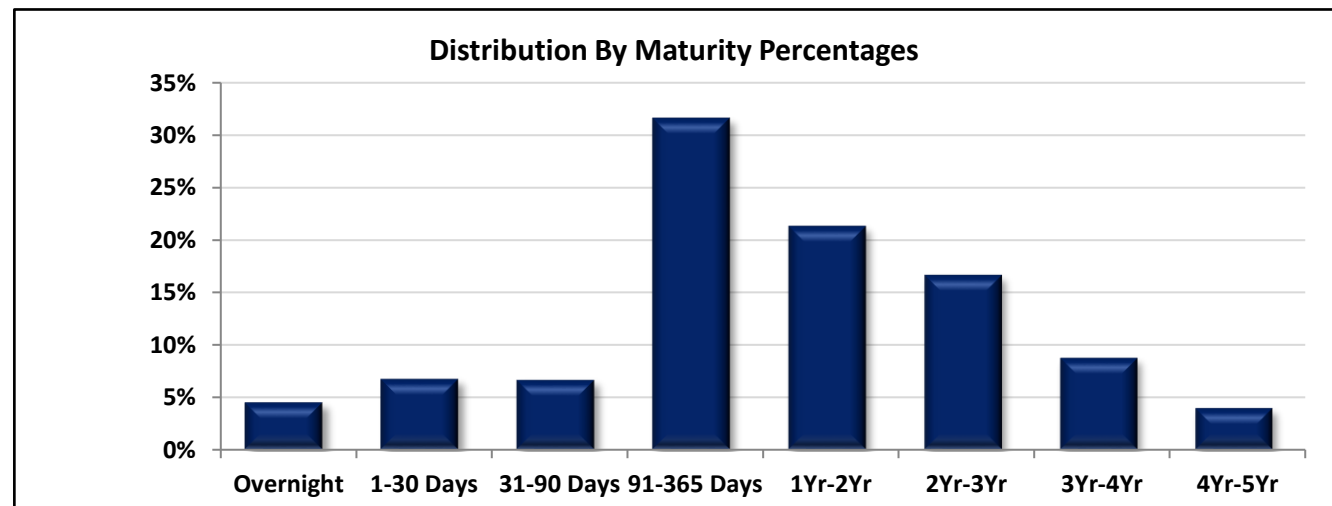
Distribution by Maturity

March 31, 2018

Maturity	Amount*
Overnight	333,846,646
1-30 Days	501,989,812
31-90 Days	493,676,510
91-365 Days	2,361,061,244
1Yr-2Yr	1,591,496,274
2Yr-3Yr	1,243,563,544
3Yr-4Yr	651,614,890
4Yr-5Yr	294,792,683
	7,472,041,604



Maturity	Amount*
Overnight	4.47%
1-30 Days	6.72%
31-90 Days	6.61%
91-365 Days	31.60%
1Yr-2Yr	21.30%
2Yr-3Yr	16.64%
3Yr-4Yr	8.72%
4Yr-5Yr	3.95%
	100.00%



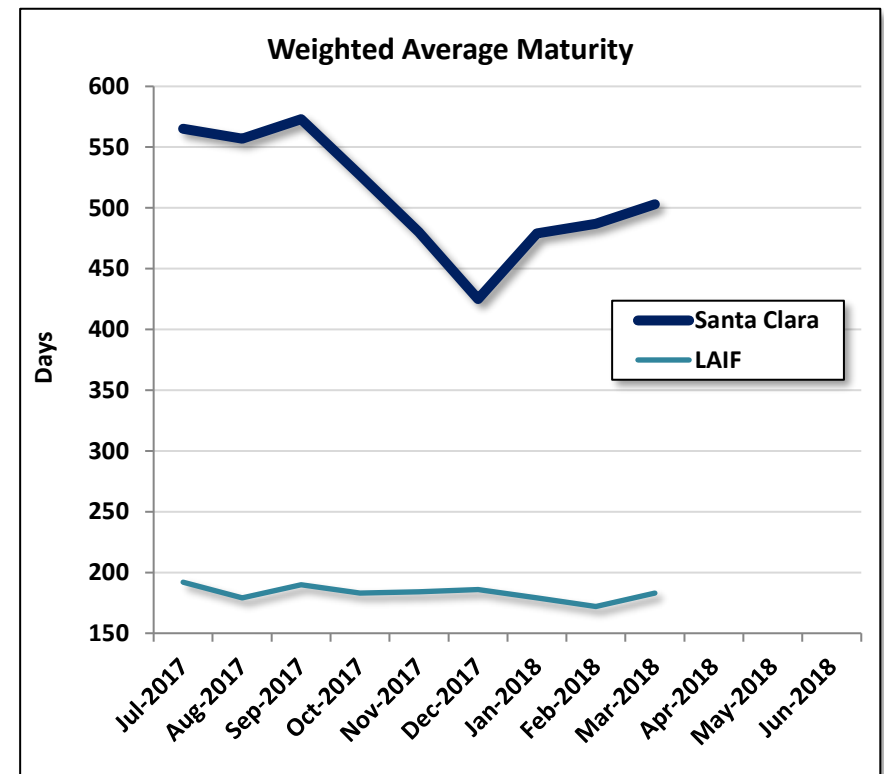
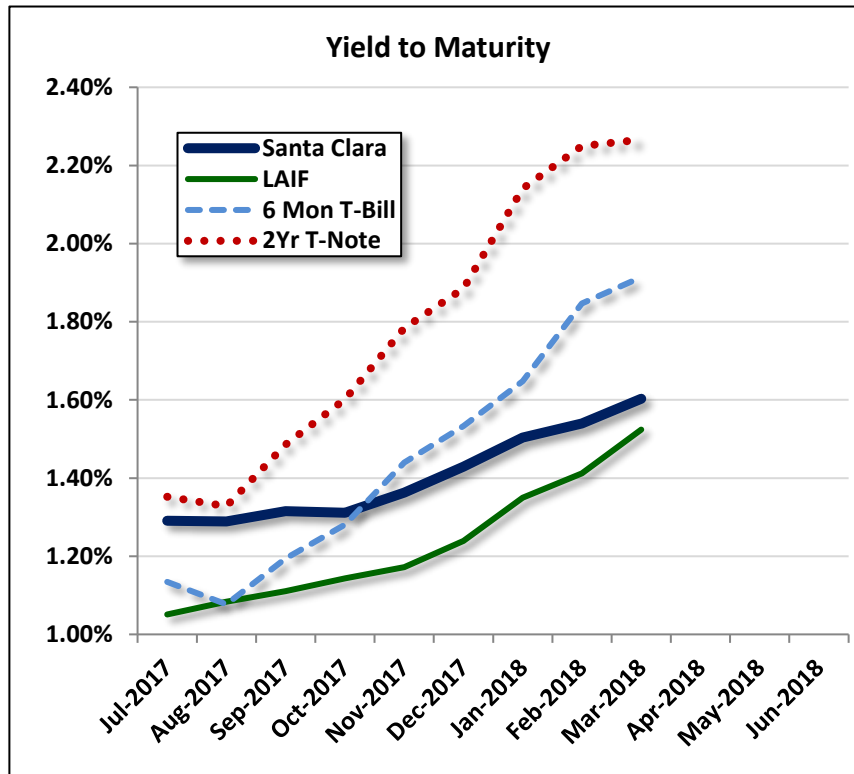
*Amounts are based on book value



Santa Clara County Commingled Pool

Yield to Maturity and Weighted Average Maturity

March 31, 2018



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%	1.31%	1.36%	1.43%	1.50%	1.54%	1.60%			
LAIF YTM	1.05%	1.08%	1.11%	1.14%	1.17%	1.24%	1.35%	1.41%	1.52%			
6 Mon T-Bill	1.13%	1.08%	1.19%	1.28%	1.44%	1.53%	1.65%	1.85%	1.91%			
2Yr T-Note	1.35%	1.33%	1.49%	1.60%	1.78%	1.89%	2.14%	2.25%	2.27%			
SCC WAM	565	557	573	527	480	425	479	487	503			
LAIF WAM	192	179	190	183	184	186	179	172	183			



Santa Clara County

Approved Issuers and Broker/Dealers

March 31, 2018

Direct Commercial Paper Issuers

General Electric
Toyota Motor Credit
US Bank, NA
Dexia Credit Local, NY

Broker/Dealers

Academy Securities, Inc
Bank of America Merrill Lynch
Barclays Capital, Inc
BMO Capital Markets
BNP Paribas Securities Corp
BNY Mellon Capital Markets, LLC
BOK Financial Securities (Bank of Oklahoma)
Brean Capital LLC
Cantor Fitzgerald & Co
Citigroup Global Markets Inc
Daiwa Capital Markets America Inc
Deutsche Bank Securities Inc
FTN Financial Capital Markets
Incapital LLC
Jefferies & Co
JP Morgan Securities, Inc
Keybanc Capital Markets, Inc
Loop Capital Markets LLC
Mizuho Securities USA, Inc
MUFG Securities USA LLC
Raymond James, Inc.
RBC Capital Markets, Inc
UBS Financial Services Inc
Vining Sparks LP
Williams Capital

Santa Clara County Commingled Pool
Compliance with Investment Policy
March 31, 2018



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, collateral must exceed market value of security by 2%	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