

# County of Santa Clara



## Finance Agency Controller-Treasurer Department

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November 28, 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 September 30, 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 September 30, 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	\$ 6,126,862,543	\$6,064,553,473	(\$62,309,070)	(1.02%)

The yield of the pool on September 30, 2018 was 1.86%. As a comparison, on September 30, 2018 the yield of a 6-month Treasury Bill was 2.36%. A two-year Treasury Note was 2.81%. The State of California Local Agency Investment Fund (LAIF) yield was 2.00%.

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:

September 2018 Quarterly Investment Summary



# **Quarterly Investment Report**

**September 30, 2018**

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## 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, 2018

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$6,126,862,543	\$6,064,553,473	-\$62,309,070	-1.02%
Worker's Compensation	\$28,400,012	\$28,289,105	-\$110,906	-0.39%
Park Charter Fund	\$4,183,065	\$4,152,311	-\$30,753	-0.74%
San Jose-Evergreen	\$16,942,574	\$16,864,672	-\$77,903	-0.46%
Medical Malpractice Insurance Fund (1)	\$9,259,164	\$9,073,412	-\$185,753	-2.01%
<b>Total</b>	<b>\$6,185,647,358</b>	<b>\$6,122,932,973</b>	<b>-\$62,714,385</b>	<b>-1.01%</b>

(1) Managed by Chandler Asset Management, Inc.

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

Fund	2018			2017
	<u>Jul 31</u>	<u>Aug 31</u>	<u>Sep 30</u>	<u>Sep 30</u>
Commingled Investment Pool	1.82%	1.82%	1.86%	1.32%
Worker's Compensation	1.77%	1.80%	1.98%	1.38%
<b>Weighted Yield</b>	<b>1.82%</b>	<b>1.82%</b>	<b>1.86%</b>	<b>1.32%</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, 2018

Federal Reserve Bank (Fed) policy makers increased interest rates by a quarter of a percentage point on September 26, 2018. This was the eighth increase since December 2015. The hike shifted the targeted trading range for the federal funds rate, the Fed's benchmark interest rate, to a range of 2 percent to 2.25 percent. It is widely expected that policy makers will raise rates again in December 2018. In lockstep with ongoing interest rate hikes being made by the Fed, U.S. government bond yields have also steadily climbed. The two-year U.S. Treasury Note yielded 2.82 percent at September 30, 2018, an increase of 92 basis points from December 31, 2017.

So far, rising interest rates has not constrained growth even though the Fed has raised its benchmark rate by two percentage points since 2015. The current economic expansion is already the second-longest in history, surpassed only by the decade of the 1990s. The economy appears to be on sturdy footing and poised to grow at an above-trend pace for the next several years. Gross domestic product (GDP)—the value of all goods and services produced in the U.S.—grew 3.5 percent during the third quarter, July through September. Third-quarter GDP results were considered strong even though growth decelerated from the 4.2 percent pace of the prior quarter. Some economists conclude that broad financial conditions, typically factors such as equity prices, foreign-exchange values, credit spreads and commodity prices, which influence economic growth, are as favorable today as in 2015 before the Fed began lifting rates.

Furthermore, the shift in interest rates has not had a discernible impact upon labor markets. Through the first nine months of the 2018, employers added an average of 211,000 workers to their payroll each month, well outpacing average monthly growth in 2017. The Labor Department reported that employers added 134,000 jobs this September, slightly lower than expected but the increase reflected a record 96th straight month of gains. Wages rose a solid 2.8 percent from a year earlier. Labor market strength was acutely underscored by the unemployment rate which fell from 3.9 percent to 3.7 percent, the lowest since December 1969. Only during the Vietnam and Korean Wars has the U.S. economy experienced a sustained period in which unemployment rates remained below 4 percent.

Currently, market observers perceive the potential effects of the trade dispute between the U.S. and China as a greater threat to growth than the domestic economy's ability to absorb higher borrowing costs. President Donald Trump's renegotiation of the NAFTA Treaty has allayed some fears, but the trade war with China is still ongoing. A sharp escalation in tensions between the two have resulted in increased tariffs on each other's goods and the threatening of more protectionist measures. Higher U.S. tariffs on Chinese goods are likely to slow GDP growth in China which would restrain economies in the rest of Asia. Japan is particularly vulnerable since roughly 20% of its exports go to China. There are no winners in a trade war. Eventually, the U.S. economy would be adversely impacted by a slowing global economy and a reduction in domestic consumption due to higher tariff costs.



## **Santa Clara County Commingled Pool and Segregated Investments**

### **Portfolio Strategy**

**September 30, 2018**

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**

**September 30, 2018**

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

The yield of the Commingled Pool is 1.86 and the weighted average life is 509 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.





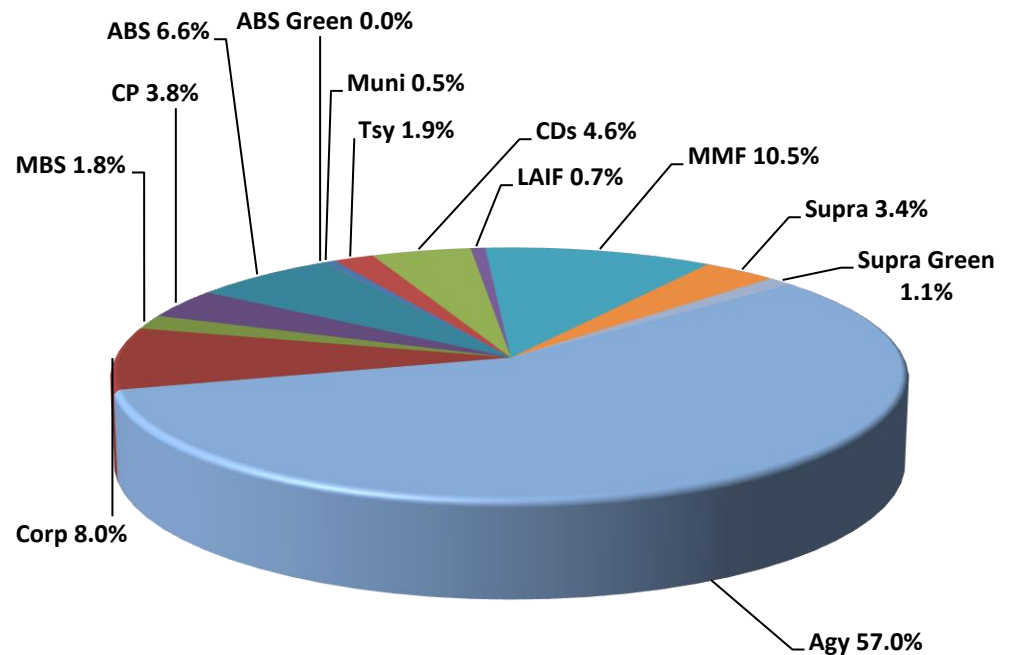
## Santa Clara County Commingled Pool

### Allocation by Security Types

September 30, 2018

Sector	9/30/2018	6/30/2018	% Chng
Federal Agencies	57.04%	52.73%	4.3%
Corporate Bonds	7.98%	6.23%	1.7%
Mortgage Backed Securities	1.83%	1.29%	0.5%
Commercial Paper	3.81%	4.50%	-0.7%
ABS	6.63%	5.68%	1.0%
ABS Green Bonds	0.03%	0.03%	0.0%
Municipal Securities	0.52%	0.42%	0.1%
U.S. Treasuries	1.87%	3.22%	-1.4%
Negotiable CDs	4.57%	17.93%	-13.4%
LAIF	0.67%	0.54%	0.1%
Money Market Funds	10.48%	3.40%	7.1%
Supranationals	3.43%	3.10%	0.3%
Supranationals Green Bonds	1.14%	0.92%	0.2%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	

Sector	9/30/2018	6/30/2018
Federal Agencies	3,494,862,445	3,999,083,670
Corporate Bonds	488,697,843	472,745,630
Mortgage Backed Securities	112,012,904	97,638,101
Commercial Paper	233,227,345	341,479,876
ABS	406,502,129	430,657,064
ABS Green Bonds	1,627,580	2,317,839
Municipal Securities	32,005,371	32,009,467
U.S. Treasuries	114,375,248	244,084,503
Negotiable CDs	280,000,000	1,360,000,000
LAIF	41,047,764	40,853,909
Money Market Funds	642,369,779	258,136,233
Supranational	210,134,135	235,134,859
Supranationals Green Bonds	70,000,000	70,000,000
<b>Total</b>	<b>6,126,862,543</b>	<b>7,584,141,151</b>



Amounts are based on book value

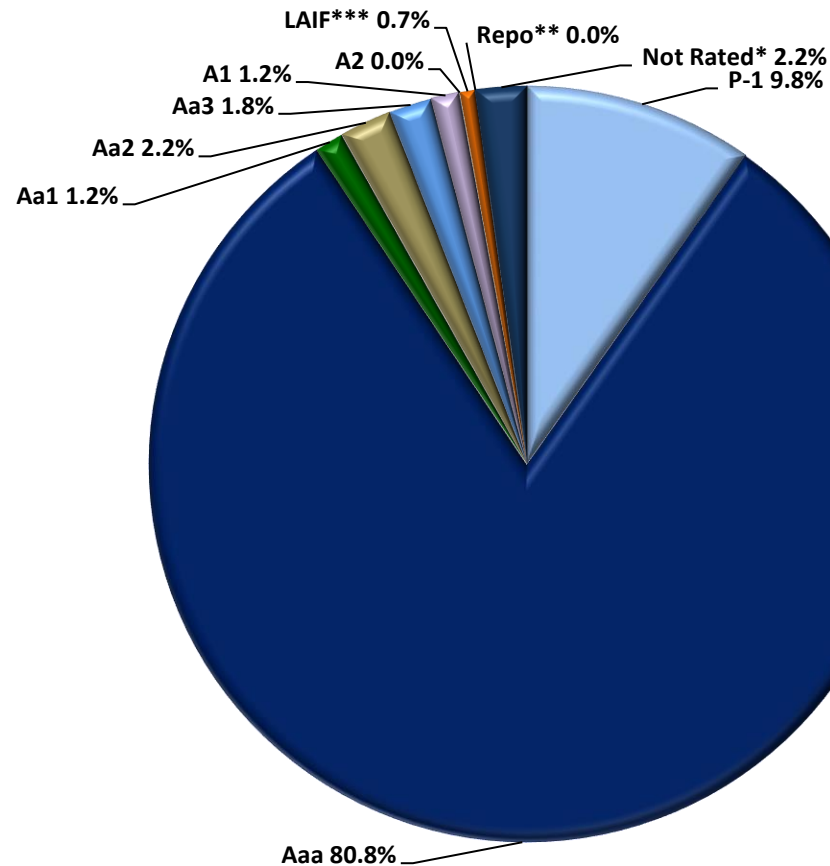


## Santa Clara County Commingled Pool

### Allocation by Ratings

September 30, 2018

Moody's Rating	Portfolio \$	Portfolio %
P-1	600,934,538	9.8%
Aaa	4,951,890,471	80.8%
Aa1	74,964,953	1.2%
Aa2	136,121,476	2.2%
Aa3	112,325,480	1.8%
A1	74,687,992	1.2%
A2	-	0.0%
A3	-	0.0%
LAIF***	41,047,764	0.7%
Repo**	-	0.0%
Not Rated*	134,889,868	2.2%
Total	6,126,862,543	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

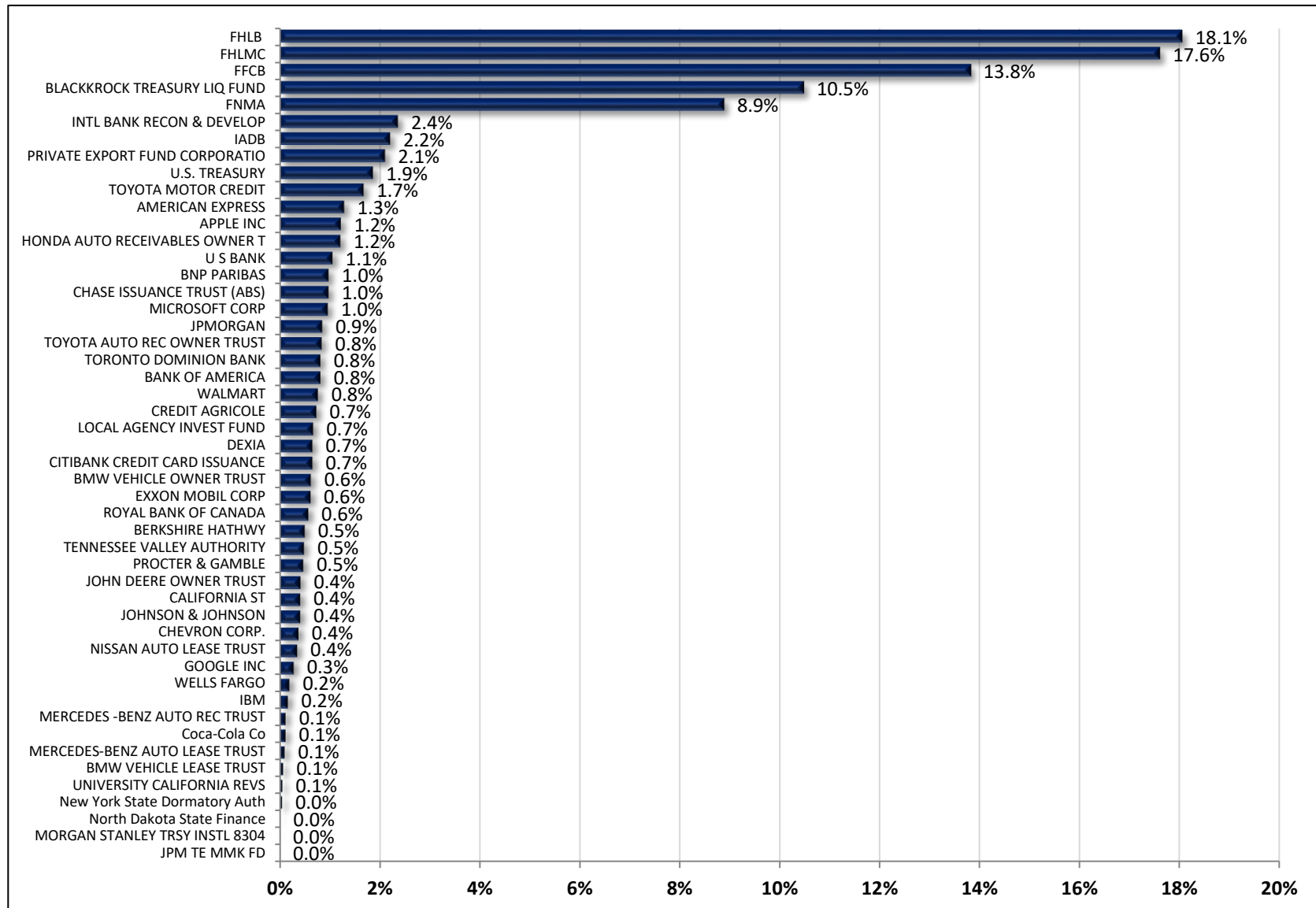
Amounts are based on book values



## Santa Clara County Commingled Pool

### Holdings by Issuer - Percent of Commingled Pool

September 30, 2018



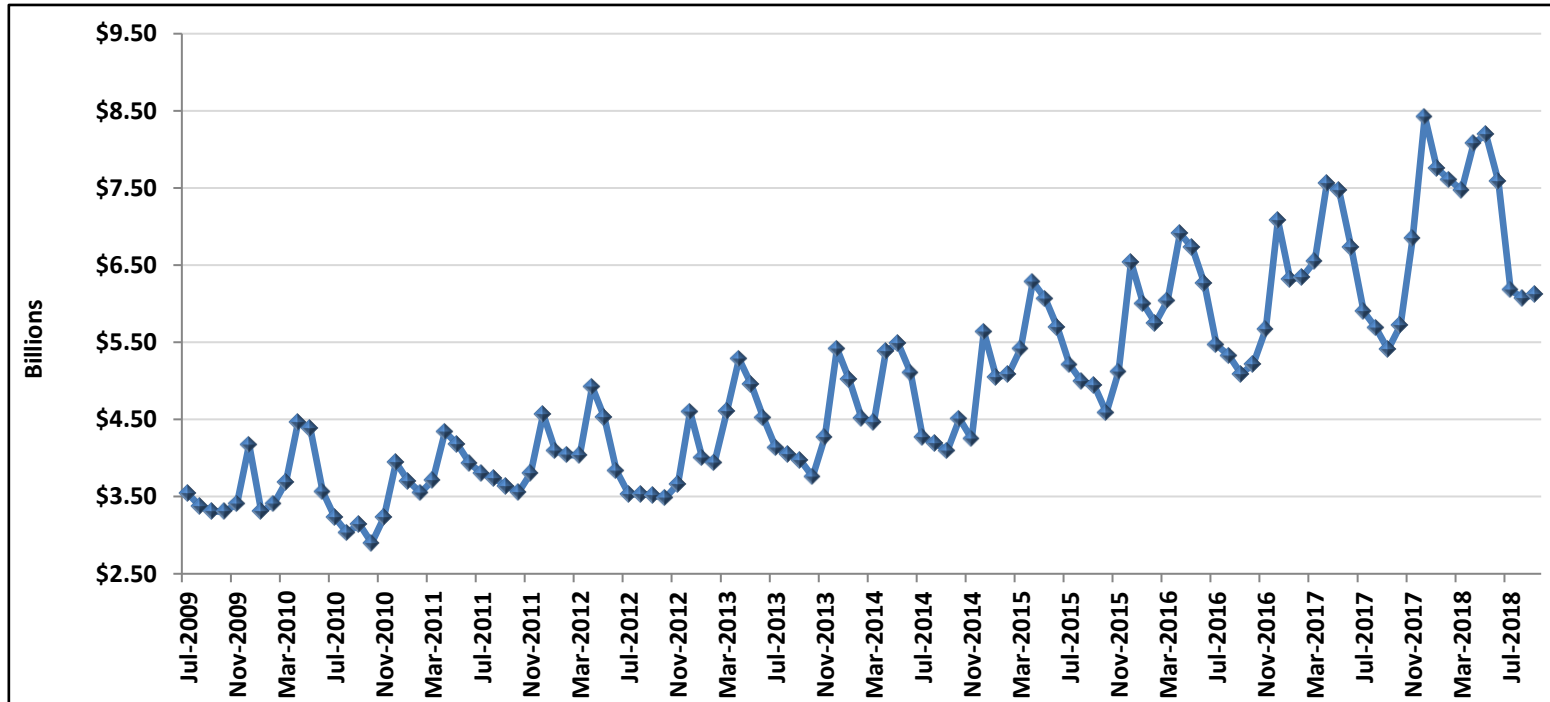
Amounts are based on book values



## Santa Clara County Commingled Pool

### Historical Month End Book Values

September 30, 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	\$8.079	\$8.192	\$7.584
FY 2019	\$6.180	\$6.068	\$6.127									

Amounts in billions

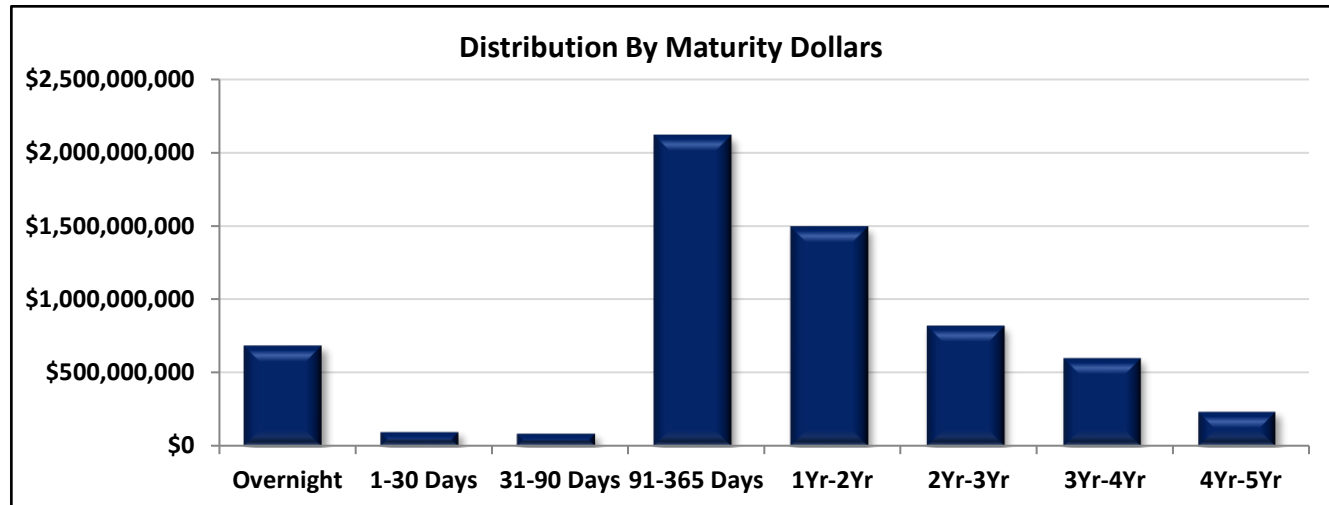


## Santa Clara County Commingled Pool

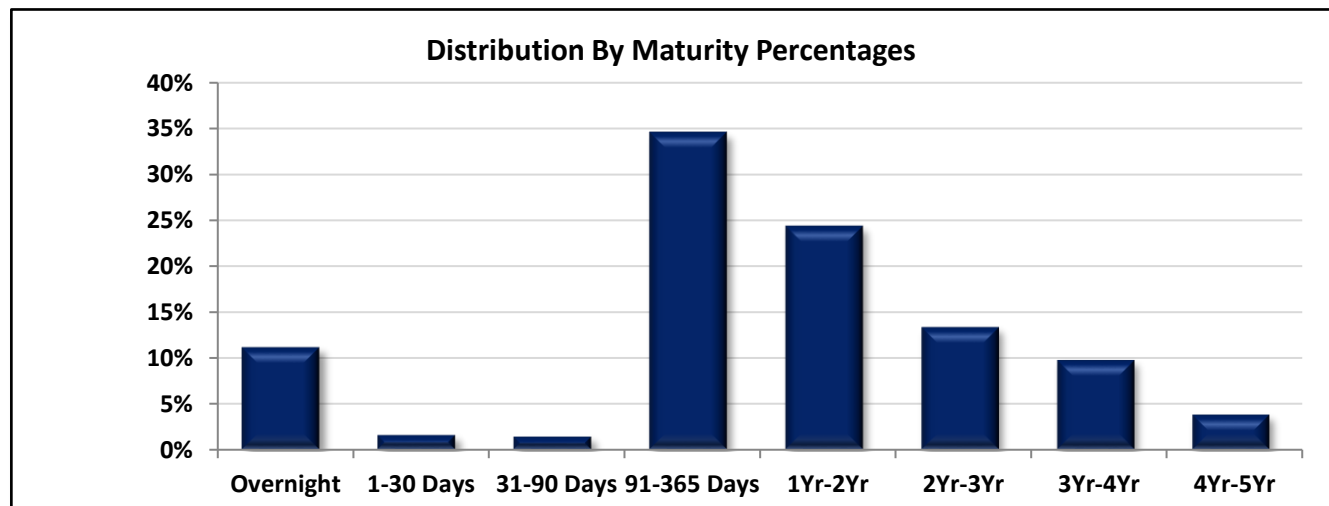
### Distribution by Maturity

September 30, 2018

Maturity	Amount*
Overnight	683,417,543
1-30 Days	96,500,693
31-90 Days	85,618,960
91-365 Days	2,117,147,402
1Yr-2Yr	1,493,520,640
2Yr-3Yr	818,729,928
3Yr-4Yr	598,290,770
4Yr-5Yr	233,636,607
	6,126,862,543



Maturity	Amount*
Overnight	11.15%
1-30 Days	1.58%
31-90 Days	1.40%
91-365 Days	34.56%
1Yr-2Yr	24.38%
2Yr-3Yr	13.36%
3Yr-4Yr	9.77%
4Yr-5Yr	3.81%
	100.00%



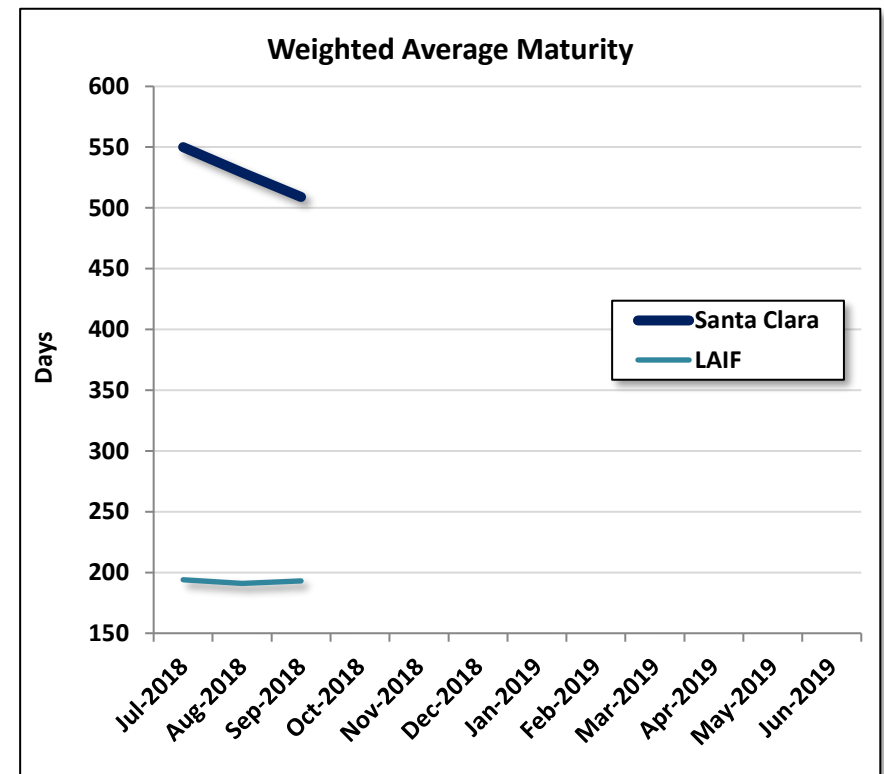
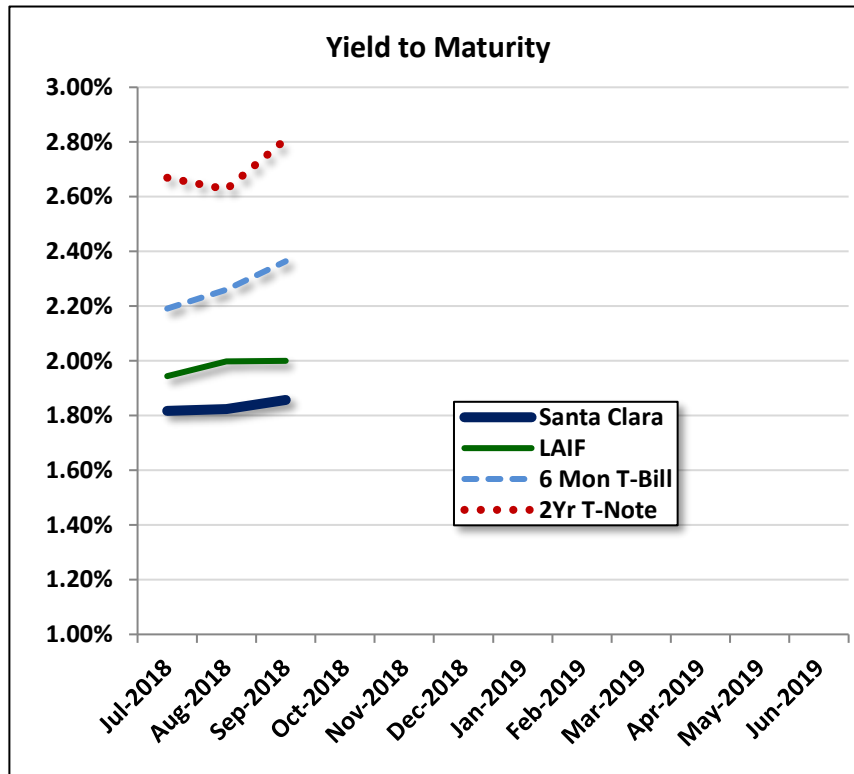
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

September 30, 2018



Item	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
SCC YTM	1.82%	1.82%	1.86%									
LAIF YTM	1.94%	2.00%	2.00%									
6 Mon T-Bill	2.19%	2.26%	2.36%									
2Yr T-Note	2.67%	2.63%	2.81%									
SCC WAM	550	529	509									
LAIF WAM	194	191	193									



## Santa Clara County

### Approved Issuers and Broker/Dealers

September 30, 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**  
**September 30, 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	No
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
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