

# County of Santa Clara



## Finance Agency Controller-Treasurer Department

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March 4, 2019

Submitted by: Alan Minato  
Alan Minato, Director of Finance

TO: BOARD OF TRUSTEES, SANTA CLARA COUNTY SCHOOL DISTRICTS  
BOARDS OF DIRECTORS, SANTA CLARA COUNTY SPECIAL PURPOSE DISTRICTS

FROM: ALAN MINATO, DIRECTOR OF FINANCE

SUBJECT: COUNTY OF SANTA CLARA TREASURY INVESTMENT PORTFOLIO STATUS

### **RECOMMENDATION**

Receive and file the December 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 December 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	\$8,198,763,772	\$ 8,162,704,925	(\$36,058,846)	(0.44%)

The yield of the pool on December 31, 2018 was 2.13%. As a comparison, on December 31, 2018 the yield of a 6-month Treasury Bill was 2.48%. A two-year Treasury Note was 2.49%. The State of California Local Agency Investment Fund (LAIF) yield was 2.29%.

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:

December 31 2018 Quarterly Investment Summary



# **Quarterly Investment Report**

**December 31, 2018**

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### 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

**December 31, 2018**

<b>Fund</b>	<b>Cost Value**</b>	<b>Market Value</b>	<b>Variance</b>	<b>% Variance</b>
Commingled Investment Pool	\$8,198,763,772	\$8,162,704,925	-\$36,058,846	-0.44%
Worker's Compensation	\$28,535,469	\$28,532,495	-\$2,974	-0.01%
Park Charter Fund	\$4,203,582	\$4,190,481	-\$13,101	-0.31%
San Jose-Evergreen	\$17,024,332	\$16,978,735	-\$45,597	-0.27%
Medical Malpractice Insurance Fund (1)	\$9,294,751	\$9,199,477	-\$95,274	-1.03%
<b>Total</b>	<b>\$8,257,821,905</b>	<b>\$8,221,606,114</b>	<b>-\$36,215,791</b>	<b>-0.44%</b>

(1) Managed by Chandler Asset Management, Inc.

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

<b>Fund</b>	<b>2018</b>			<b>2017</b>
	<u><b>Oct 31</b></u>	<u><b>Nov 30</b></u>	<u><b>Dec 31</b></u>	<u><b>Dec 31</b></u>
Commingled Investment Pool	1.93%	2.03%	2.13%	1.43%
Worker's Compensation	2.07%	2.10%	2.34%	1.49%
<b>Weighted Yield</b>	<b>1.93%</b>	<b>2.03%</b>	<b>2.13%</b>	<b>1.43%</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**

**December 31, 2018**

The U.S. economy as measured by gross domestic product (GDP) grew by 3.2 percent in 2018 bolstered by low unemployment rate, the lowest in 48 years, and ongoing strength in household spending which accounts for about 70 percent of the domestic economy. Most recently, GDP expanded by 2.9 percent in the quarter ended December 31, 2018. The current economic expansion is relatively long and in its tenth year. Job gains remain robust. The unemployment rate in December 2018 was 3.8 percent and, even with the impact of the government shutdown, the jobless rate further declined to 3.7 percent during January 2019. Matching the past year's strength in employment growth may be difficult. Businesses continue to cite a shortage of qualified workers as a restraint on hiring. Even if job growth should decelerate, consumer spending continues to be as a growth driver benefiting from increases in wage income, support from corporate profitability and access to credit. Furthermore, economists expect mounting labor cost pressures will motivate businesses to increase capital spending to adopt and acquire productivity-enhancing practices.

Unlike the domestic U.S. economy, there are concerning signs of a synchronized global economic slow-down emanating from China and Europe. China has encountered significant headwinds. Equity markets returned a negative 20 percent in 2018. The U.S. imposed tariffs worth \$250 billion on Chinese exports sold in the United States. Most critically, China has been absorbing the negative consequences of deleveraging its economy to contain an overuse of credit and borrowing. Similarly, Europe experienced faltering growth in 2018. The German economy nearly entered a recession while Italy's political crisis and the protracted difficulties related to Britain removing itself from European Union took their toll.

The Federal Reserve Bank ("Fed") policy makers in December 2018 increased their benchmark interest rate by a quarter of a percentage point with the intent that the rate will fluctuate between 2.25 and 2.5 percent. This decision had been widely anticipated. So far, policy makers have lifted borrowing costs four times in 2018 and nine times since the Fed's initial rate hike in December 2015. The Fed, in crafting monetary policy, attempts to strike a delicate balance between containment of inflation, which is accomplished by restraining the economy from over-heating, and stimulating economic growth. With U.S. unemployment at its lowest level since 1969, the latest data show the effects of a tight labor market have begun to translate into higher wages. Nevertheless, the expected pass-through from low unemployment to rising wages has not materialized, all of which should have been inflationary even with policy makers hiking interest rates. Numerous factors including structural pressures, which continue to suppress wages, are unexpectedly assisting policy makers. Most frequently cited factors include globalization, foreign competition, automation and technology, outsourcing, on-line retailing, erosion of low-skill workers' bargaining power, industry concentration, and hidden slack in the labor markets.



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

### **Portfolio Strategy**

**December 31, 2018**

Core inflation, which excludes food and energy, rose 0.2 percent in January 2019 from the prior month, an increase that has been the same each month for the fifth straight time, indicating inflation is steady. The 2.1 percent gain in January measured over the prior twelve trailing months following the 2.2 percent gain in December, suggests that the Fed's preferred measure of gauging inflation based on consumption continues to remain below the 2 percent inflation goal set by policy makers.

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**

**December 31, 2018**

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

The yield of the Commingled Pool is 2.13 and the weighted average life is 406 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.



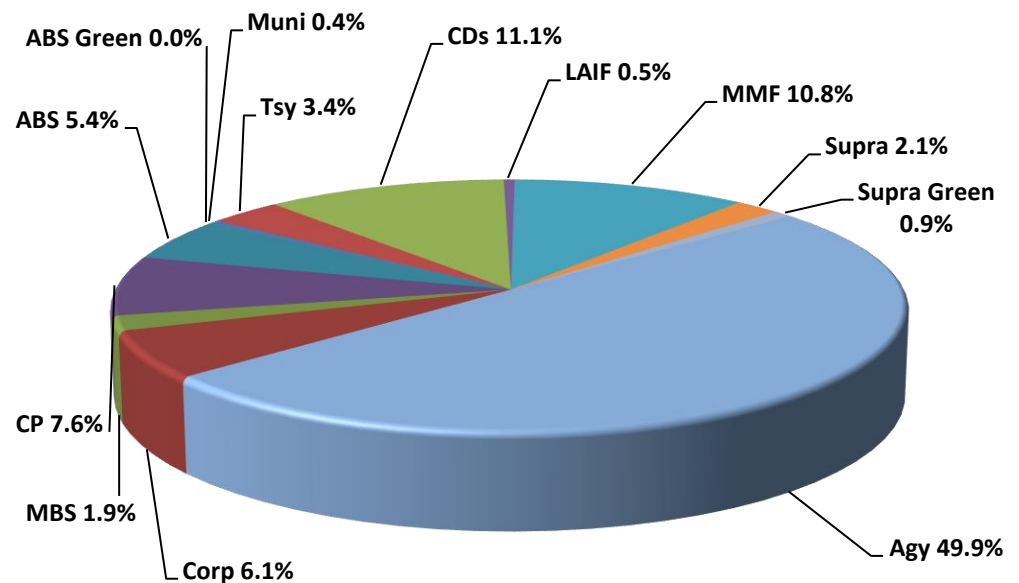


## Santa Clara County Commingled Pool

### Allocation by Security Types

December 31, 2018

Sector	12/31/2018	9/30/2018	% Chng
Federal Agencies	49.86%	57.04%	-7.2%
Corporate Bonds	6.09%	7.98%	-1.9%
Mortgage Backed Securities	1.89%	1.83%	0.1%
Commercial Paper	7.60%	3.81%	3.8%
ABS	5.44%	6.63%	-1.2%
ABS Green Bonds	0.01%	0.03%	0.0%
Municipal Securities	0.39%	0.52%	-0.1%
U.S. Treasuries	3.40%	1.87%	1.5%
Negotiable CDs	11.10%	4.57%	6.5%
LAIF	0.50%	0.67%	-0.2%
Money Market Funds	10.79%	10.48%	0.3%
Supranationals	2.08%	3.43%	-1.4%
Supranationals Green Bonds	0.85%	1.14%	-0.3%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	



Sector	12/31/2018	9/30/2018
Federal Agencies	4,087,750,692	3,494,862,445
Corporate Bonds	498,895,940	488,697,843
Mortgage Backed Securities	155,243,940	112,012,904
Commercial Paper	623,225,009	233,227,345
ABS	445,793,370	406,502,129
ABS Green Bonds	1,035,737	1,627,580
Municipal Securities	32,001,276	32,005,371
U.S. Treasuries	279,065,937	114,375,248
Negotiable CDs	910,000,000	280,000,000
LAIF	41,270,791	41,047,764
Money Market Funds	884,353,094	642,369,779
Supranational	170,127,986	210,134,135
Supranationals Green Bonds	70,000,000	70,000,000
<b>Total</b>	<b>8,198,763,772</b>	<b>6,126,862,543</b>

Amounts are based on book value

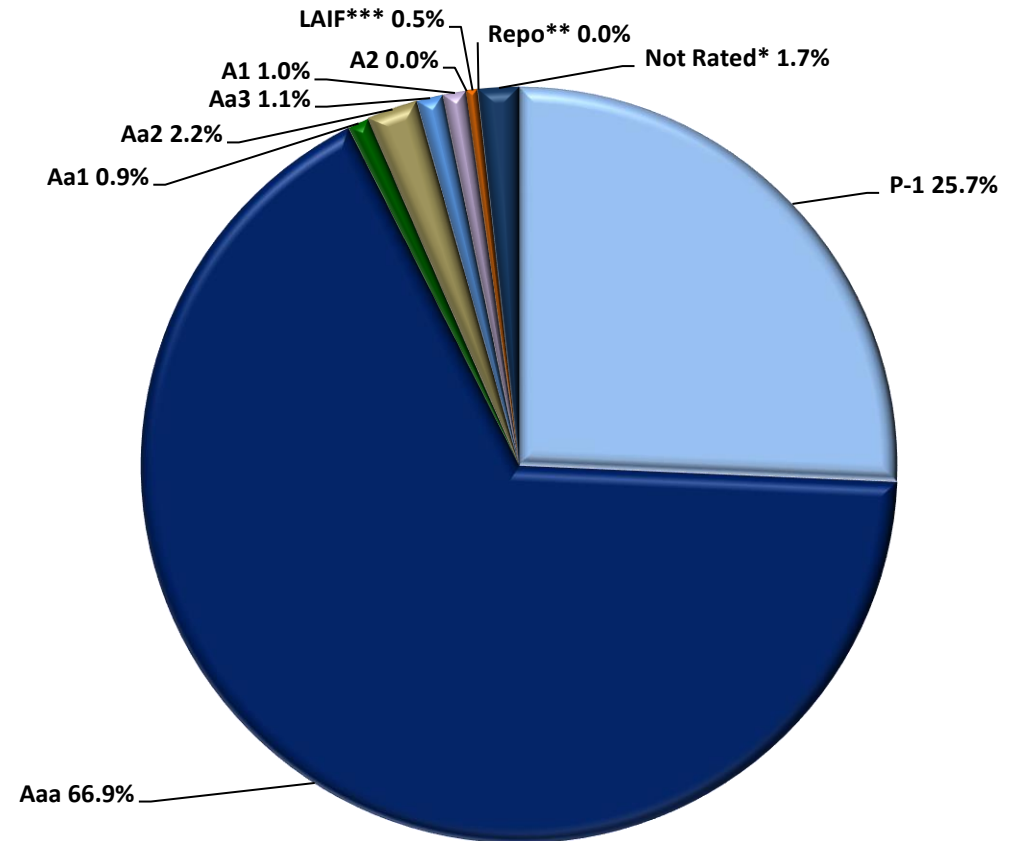


## Santa Clara County Commingled Pool

### Allocation by Ratings

December 31, 2018

Moody's Rating	Portfolio \$	Portfolio %
P-1	2,105,786,721	25.7%
Aaa	5,481,665,920	66.9%
Aa1	74,970,608	0.9%
Aa2	178,605,700	2.2%
Aa3	92,543,423	1.1%
A1	82,058,225	1.0%
A2	-	0.0%
A3	-	0.0%
LAIF***	41,270,791	0.5%
Repo**	-	0.0%
Not Rated*	141,862,383	1.7%
<b>Total</b>	<b>8,198,763,772</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

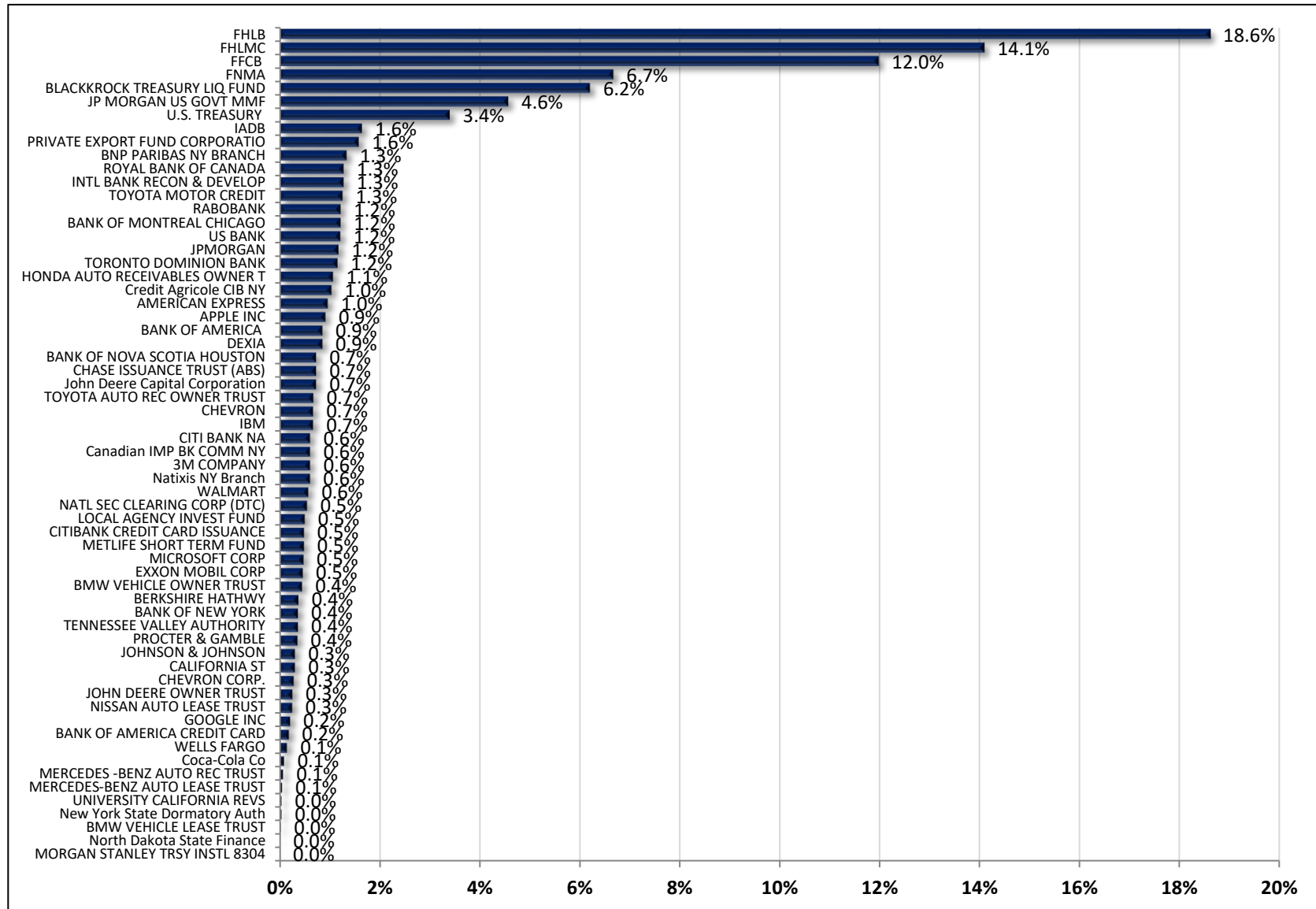
Amounts are based on book values



## Santa Clara County Commingled Pool

### Holdings by Issuer - Percent of Commingled Pool

December 31, 2018



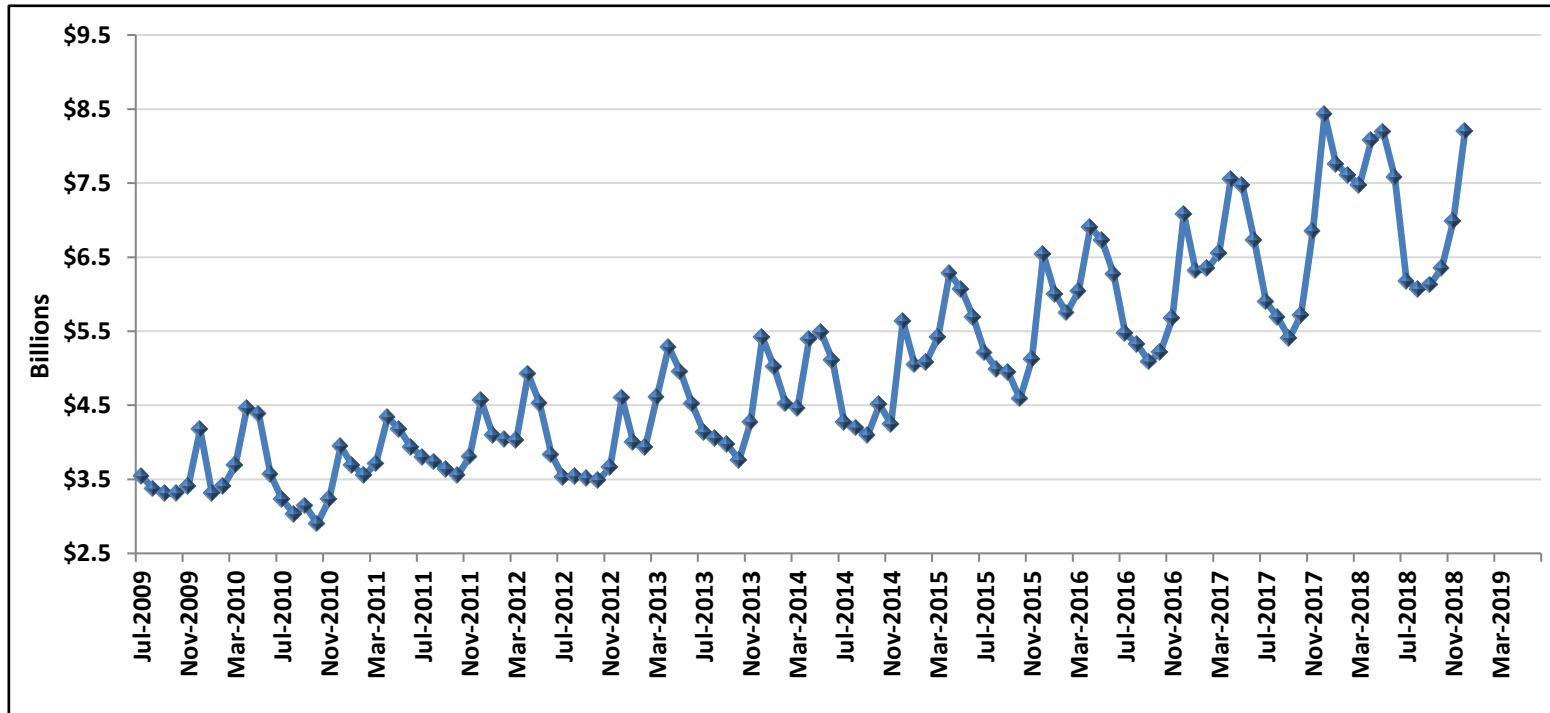
Amounts are based on book values



## Santa Clara County Commingled Pool

### Historical Month End Book Values

December 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	\$8.079	\$8.192	\$7.584
FY 2019	\$6.180	\$6.068	\$6.127	\$6.350	\$6.987	\$8.199						

Amounts in billions

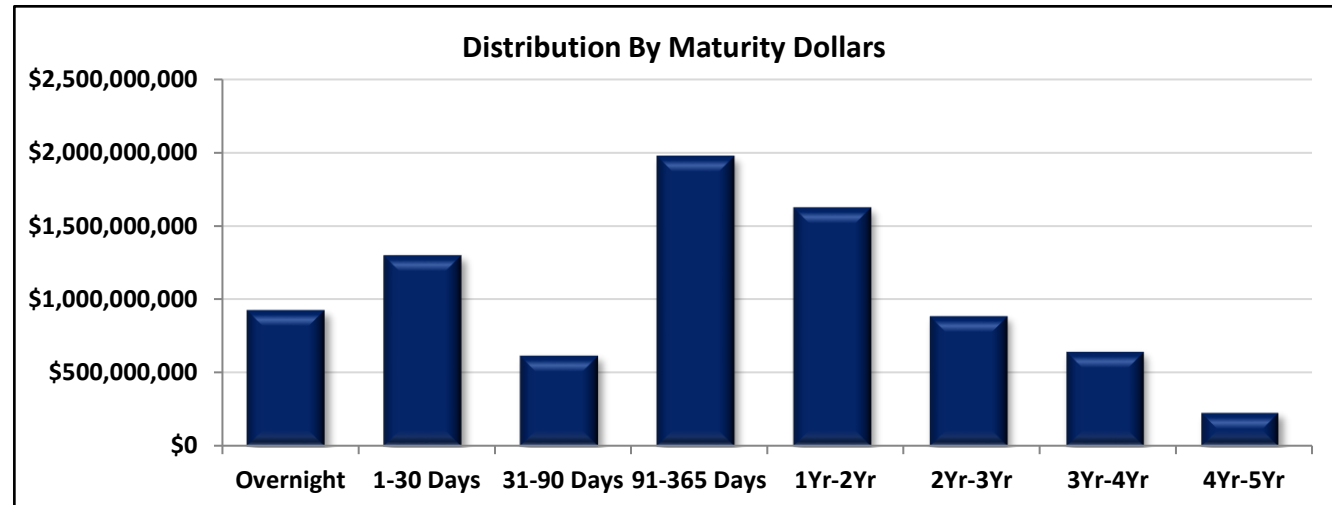


## Santa Clara County Commingled Pool

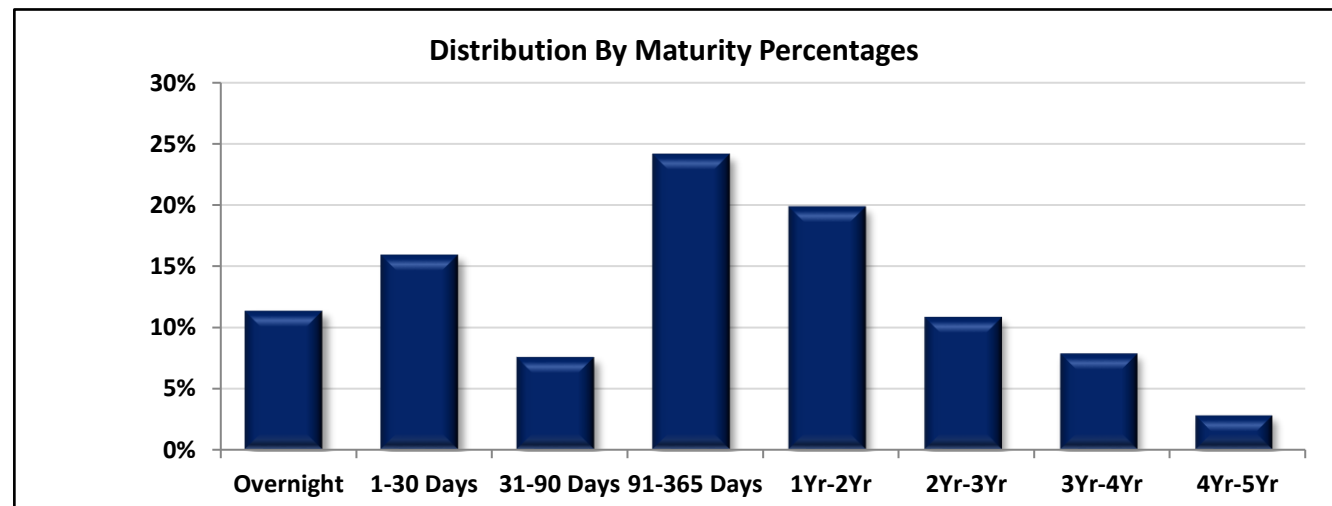
### Distribution by Maturity

December 31, 2018

Maturity	Amount*
Overnight	925,623,885
1-30 Days	1,300,478,392
31-90 Days	616,676,842
91-365 Days	1,977,231,553
1Yr-2Yr	1,624,689,530
2Yr-3Yr	885,528,989
3Yr-4Yr	641,901,671
4Yr-5Yr	226,632,910
	8,198,763,772



Maturity	Amount*
Overnight	11.29%
1-30 Days	15.86%
31-90 Days	7.52%
91-365 Days	24.12%
1Yr-2Yr	19.82%
2Yr-3Yr	10.80%
3Yr-4Yr	7.83%
4Yr-5Yr	2.76%
	100.00%



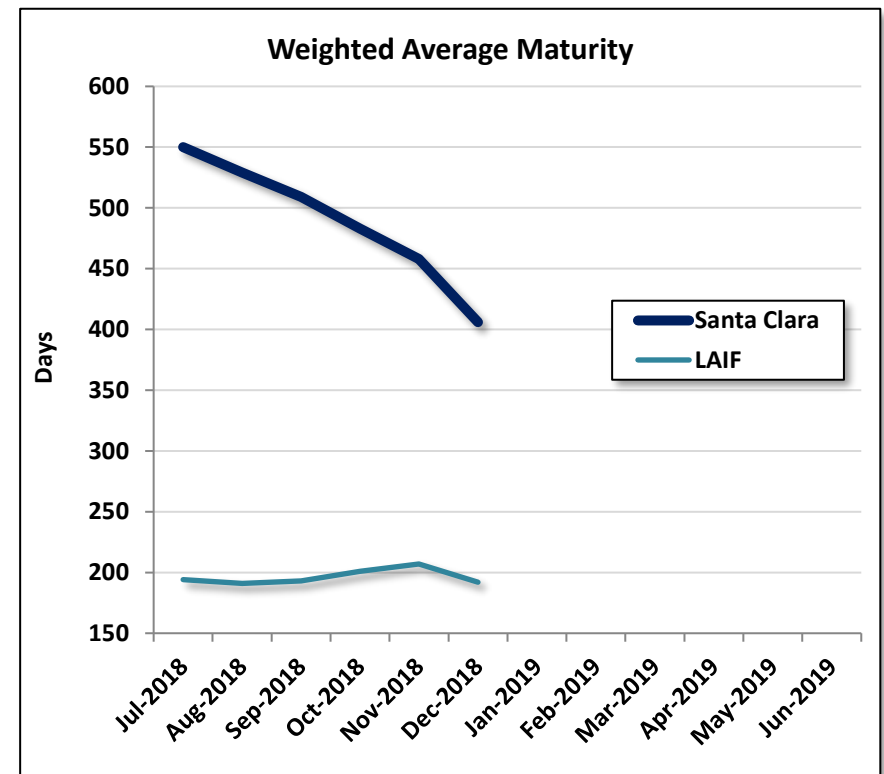
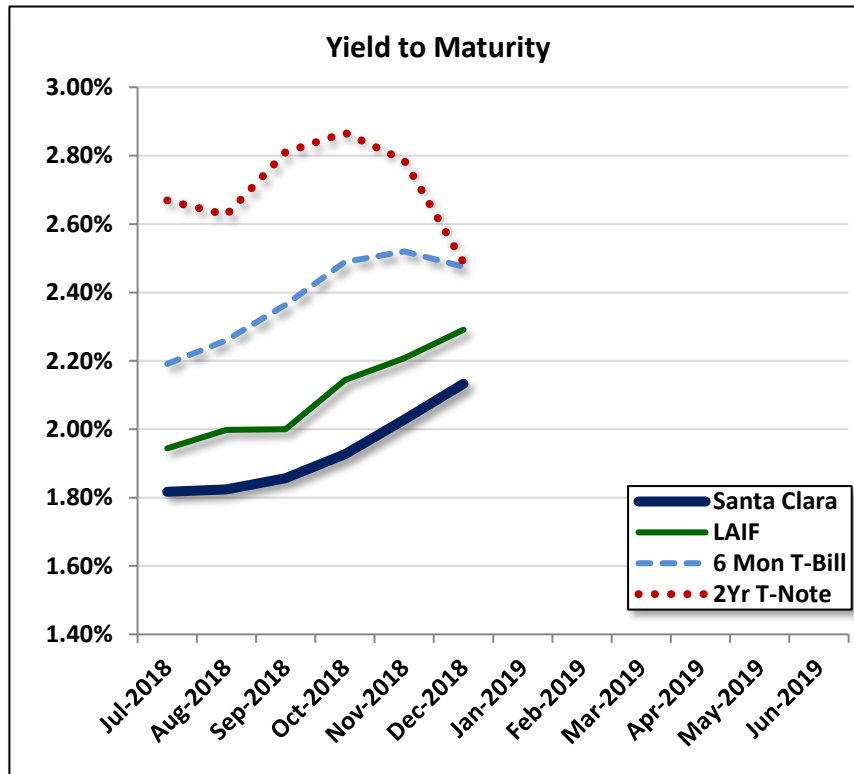
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

December 31, 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%	1.93%	2.03%	2.13%						
LAIF YTM	1.94%	2.00%	2.00%	2.14%	2.21%	2.29%						
6 Mon T-Bill	2.19%	2.26%	2.36%	2.49%	2.52%	2.48%						
2Yr T-Note	2.67%	2.63%	2.81%	2.87%	2.79%	2.49%						
SCC WAM	550	529	509	483	458	406						
LAIF WAM	194	191	193	201	207	192						



## Santa Clara County

### Approved Issuers and Broker/Dealers

December 31, 2018

#### Direct Commercial Paper Issuers

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**  
**December 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
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





## Santa Clara County Commingled Pool

### Allocation by Security Types

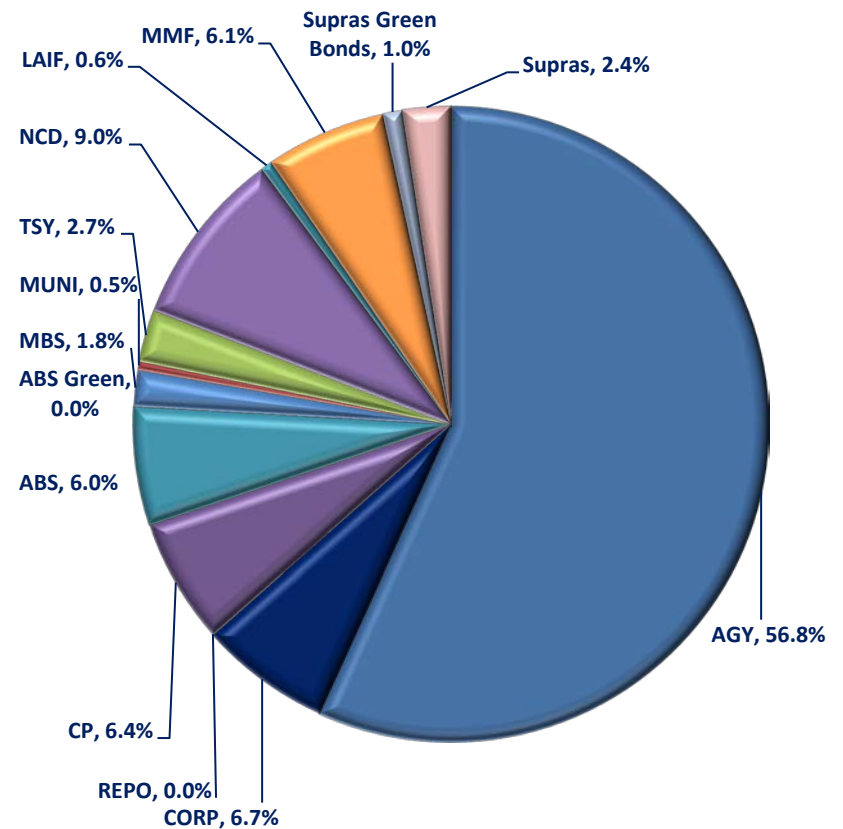
For the Month Ended November 30, 2018

<b>Average Daily Balance</b>	<b>\$ 6,549,656,803.35</b>
<b>Book Yield</b>	<b>2.028%</b>
<b>Weighted Average Maturity</b>	<b>458 Days</b>

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,983.54	\$ 3,980.05	\$ 3,934.84
Corporate Bonds	469.83	468.83	464.65
Repurchase Agreements	-	-	-
Commercial Paper	445.00	442.67	442.58
Asset-Backed Securities	420.21	420.13	417.20
Asset-Backed Sec Green Bds	1.22	1.22	1.22
Mortgage Backed Securities	127.54	127.90	126.24
Municipal Securities	31.97	32.00	31.23
U.S. Treasuries	185.00	184.29	183.88
Negotiable CDs	625.00	625.00	624.91
LAIF	41.27	41.27	41.27
Money Market Funds	423.53	423.53	423.53
Supranationals Green Bonds	70.00	70.00	69.93
Supranationals	170.00	170.13	168.71
<b>Total</b>	<b>\$ 6,994.11</b>	<b>\$ 6,987.03</b>	<b>\$ 6,930.17</b>

\*Represents Amortized Book Value

Asset Allocation By Market Value





## Santa Clara County Commingled Pool

### Allocation by Security Types

For the Month Ended October 31, 2018

Average Daily Balance \$ 6,163,420,898.62  
 Book Yield 1.927%  
 Weighted Average Maturity 483 Days

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,817.51	\$ 3,814.25	\$ 3,762.87
Corporate Bonds	489.83	488.76	484.20
Repurchase Agreements	-	-	-
Commercial Paper	405.00	402.59	402.47
Asset-Backed Securities	398.17	398.10	394.83
Asset-Backed Sec Green Bds	1.43	1.43	1.43
Mortgage Backed Securities	119.87	120.24	118.25
Municipal Securities	31.97	32.00	31.24
U.S. Treasuries	150.00	149.26	148.77
Negotiable CDs	340.00	340.00	339.92
LAIF	41.27	41.27	41.27
Money Market Funds	321.57	321.57	321.57
Supranationals Green Bonds	70.00	70.00	69.83
Supranationals	170.00	170.13	168.43
<b>Total</b>	<b>\$ 6,356.63</b>	<b>\$ 6,349.60</b>	<b>\$ 6,285.08</b>

\*Represents Amortized Book Value

### Asset Allocation By Market Value

