

# County of Santa Clara



## Finance Agency Controller-Treasurer Department

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May 23, 2019

Submitted by:

  
George Doorley, Controller-Treasurer

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

FROM: <sup>AM</sup> ALAN MINATO, DIRECTOR OF FINANCE

SUBJECT: COUNTY OF SANTA CLARA TREASURY INVESTMENT PORTFOLIO STATUS

### RECOMMENDATION

Receive and file the March 31, 2019 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, 2019 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	\$7,150,681,019	\$ 7,139,350,994	(\$11,330,026)	(0.16%)

The yield of the pool on March 31, 2019 was 2.22%. As a comparison, on March 31, 2019 the yield of a 6-month Treasury Bill was 2.42%. A two-year Treasury Note was 2.26%. The State of California Local Agency Investment Fund (LAIF) yield was 2.44%.

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 31, 2019 Quarterly Investment Summary



# Quarterly Investment Report

March 31, 2019

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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

March 31, 2019

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$7,150,681,019	\$7,139,350,994	-\$11,330,026	-0.16%
Worker's Compensation	\$28,691,332	\$28,797,125	\$105,793	0.37%
Park Charter Fund	\$4,214,199	\$4,220,392	\$6,193	0.15%
San Jose-Evergreen	\$17,104,617	\$17,095,676	-\$8,941	-0.05%
Medical Malpractice Insurance Fund (1)	\$9,337,386	\$9,309,795	-\$27,591	-0.30%
<b>Total</b>	<b>\$7,210,028,553</b>	<b>\$7,198,773,982</b>	<b>-\$11,254,571</b>	<b>-0.16%</b>

(1) Managed by Chandler Asset Management, Inc.

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

Fund	2019			2018
	<u>Jan 31</u>	<u>Feb 28</u>	<u>Mar 31</u>	<u>Mar 31</u>
Commingled Investment Pool	2.15%	2.16%	2.22%	1.60%
Worker's Compensation	2.31%	2.32%	2.41%	1.44%
<b>Weighted Yield</b>	<b>2.15%</b>	<b>2.16%</b>	<b>2.22%</b>	<b>1.60%</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

March 31, 2019

The outlook for the U.S. domestic economy remains positive. Economic growth, in the first quarter ended March 31, 2019, accelerated at a much stronger rate than expected. Gross domestic product (GDP), the total dollar value of all goods and services produced, expanded at a 3.2 percent annualized rate in the January through March period, according to Commerce Department data. GDP had advanced 2.2 percent in the prior quarter. The step-up in first quarter growth came despite the federal government shutdown through most of January, tariffs emanating from trade tensions with China and slower economic growth abroad. Gains in U.S. equity markets in the first quarter, the most since 2009 provided further assurance in validating growth in the underlying economy. The S&P 500 index, widely regarded as the best single gauge of large-cap U.S. equities returned 13.6 percent first quarter 2019, a strong reversal from the negative return of 5.7 percent posted by the index for 2018.

Low unemployment and solid wage gains supporting consumer spending continue to define the economy's underlying strength. With unemployment at 3.8 percent, a multidecade low, the March rebound in U.S. consumer spending corroborated the expected relation of strong labor markets fueling growth. Consumer purchases which make up more than two-thirds of the economy, rose 0.9 percent in March from the prior month, reflecting the best gain in nearly a decade. Wage and salary gains were solid with a 0.4 percent monthly rise in March following a 0.3 percent increase in February. March retail sales boosted by gains in motor vehicles sharply rose 1.6 percent. In fact, retail expansion spanned multiple spending categories. Twelve of thirteen major retail categories increased.

Even with a strengthening economy and tightness in the labor markets, Federal Reserve Bank (Fed) policy makers have communicated they will remain patient while considering any policy rate changes and intend to keep interest rates unchanged throughout 2019. Tepid inflation growth continues to explain the Fed's reluctance to further raise interest rates since no urgency exists to act. Previously, policy makers lifted borrowing costs four times in 2018 and nine times since the Fed's initial rate hike in 2015. Most recently, Federal Reserve policy makers' preferred inflation measure, the core-price gauge barely changed in March from the previous month. The measure increased only 1.6 percent from a year earlier, the lowest since January 2018 and clearly below the Fed's 2 percent healthy inflation target.



## Santa Clara County Commingled Pool and Segregated Investments

### Portfolio Strategy

March 31, 2019

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, 2019

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

The yield of the Commingled Pool is 2.22 and the weighted average life is 496 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.

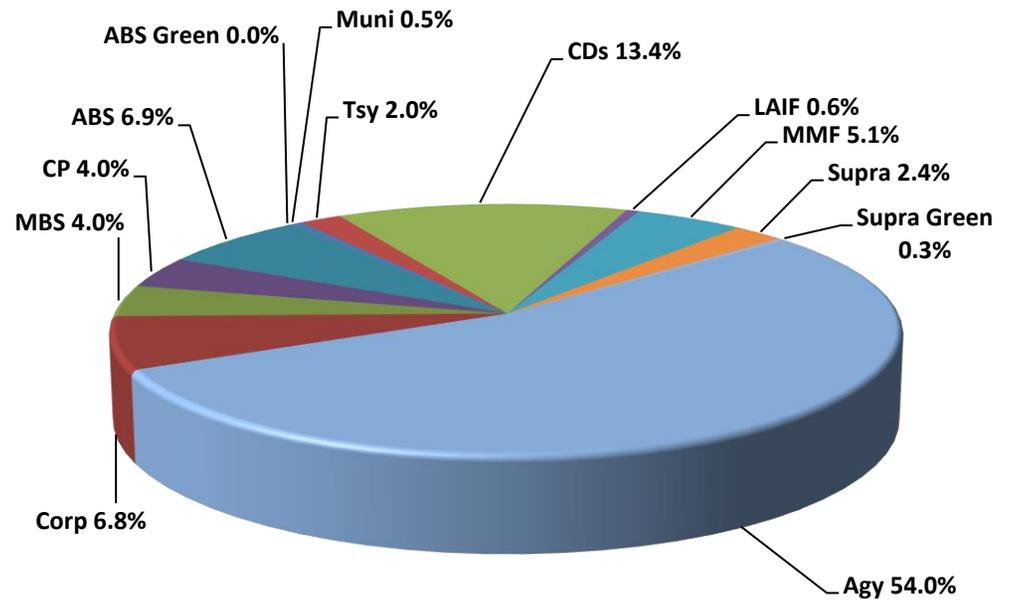


## Santa Clara County Commingled Pool

### Allocation by Security Types

March 31, 2019

Sector	3/31/2019	12/31/2018	% Chng
Federal Agencies	53.97%	49.86%	4.1%
Corporate Bonds	6.81%	6.09%	0.7%
Mortgage Backed Securities	4.03%	1.89%	2.1%
Commercial Paper	4.02%	7.60%	-3.6%
ABS	6.90%	5.44%	1.5%
ABS Green Bonds	0.01%	0.01%	0.0%
Municipal Securities	0.53%	0.39%	0.1%
U.S. Treasuries	1.95%	3.40%	-1.5%
Negotiable CDs	13.43%	11.10%	2.3%
LAIF	0.58%	0.50%	0.1%
Money Market Funds	5.05%	10.79%	-5.7%
Supranationals	2.38%	2.08%	0.3%
Supranationals Green Bonds	0.35%	0.85%	-0.5%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	



Sector	3/31/2019	12/31/2018
Federal Agencies	3,858,898,880	4,087,750,692
Corporate Bonds	487,053,767	498,895,940
Mortgage Backed Securities	287,861,462	155,243,940
Commercial Paper	287,618,194	623,225,009
ABS	493,457,483	445,793,370
ABS Green Bonds	516,634	1,035,737
Municipal Securities	37,693,061	32,001,276
U.S. Treasuries	139,576,407	279,065,937
Negotiable CDs	960,000,000	910,000,000
LAIF	41,520,182	41,270,791
Money Market Funds	361,362,983	884,353,094
Supranational	170,121,967	170,127,986
Supranationals Green Bonds	25,000,000	70,000,000
<b>Total</b>	<b>7,150,681,019</b>	<b>8,198,763,772</b>

Amounts are based on book value

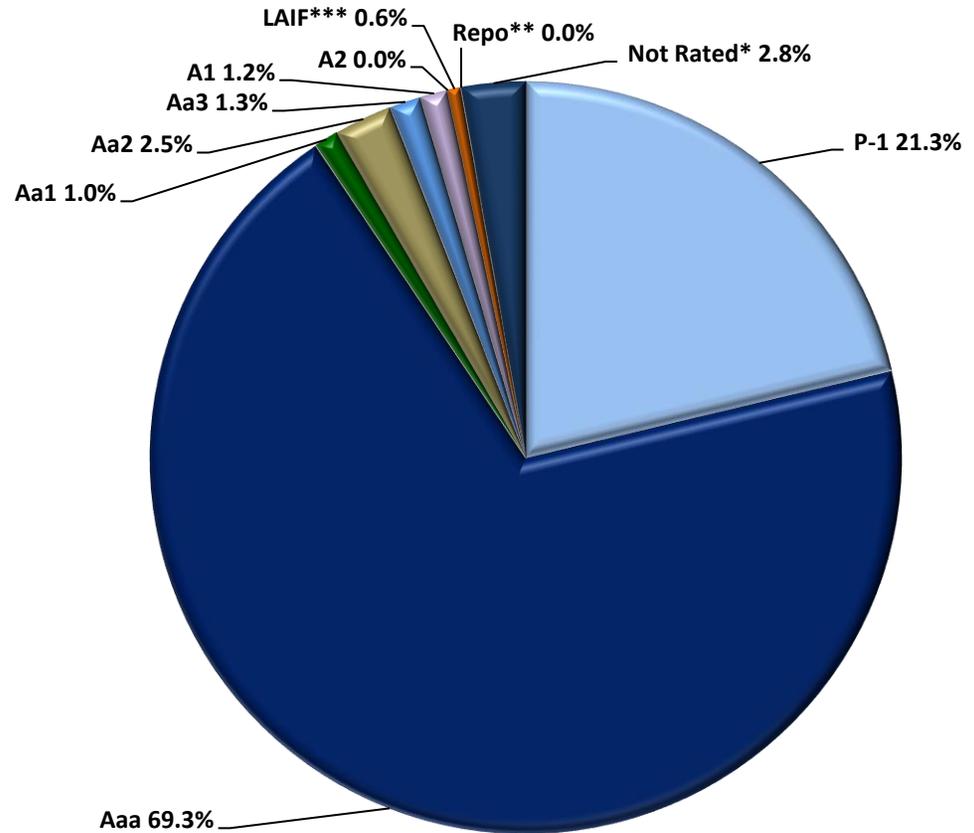


## Santa Clara County Commingled Pool

### Allocation by Ratings

March 31, 2019

Moody's Rating	Portfolio \$	Portfolio %
P-1	1,521,972,869	21.3%
Aaa	4,953,700,628	69.3%
Aa1	74,976,263	1.0%
Aa2	179,289,903	2.5%
Aa3	95,817,741	1.3%
A1	85,046,770	1.2%
A2	-	0.0%
A3	-	0.0%
LAIF***	41,520,182	0.6%
Repo**	-	0.0%
Not Rated*	198,356,665	2.8%
<b>Total</b>	<b>7,150,681,019</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

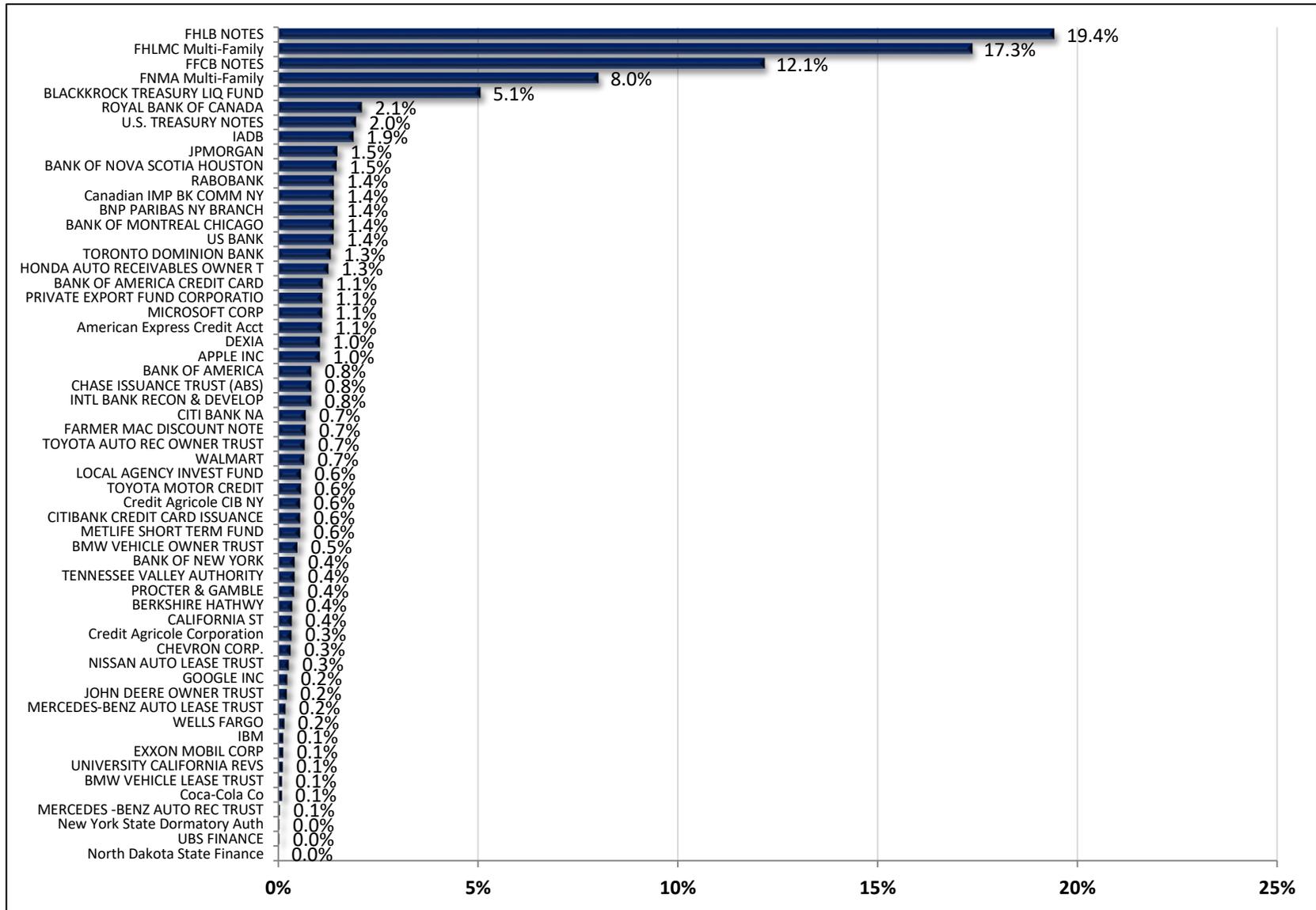
Amounts are based on book values



## Santa Clara County Commingled Pool

### Holdings by Issuer - Percent of Commingled Pool

March 31, 2019



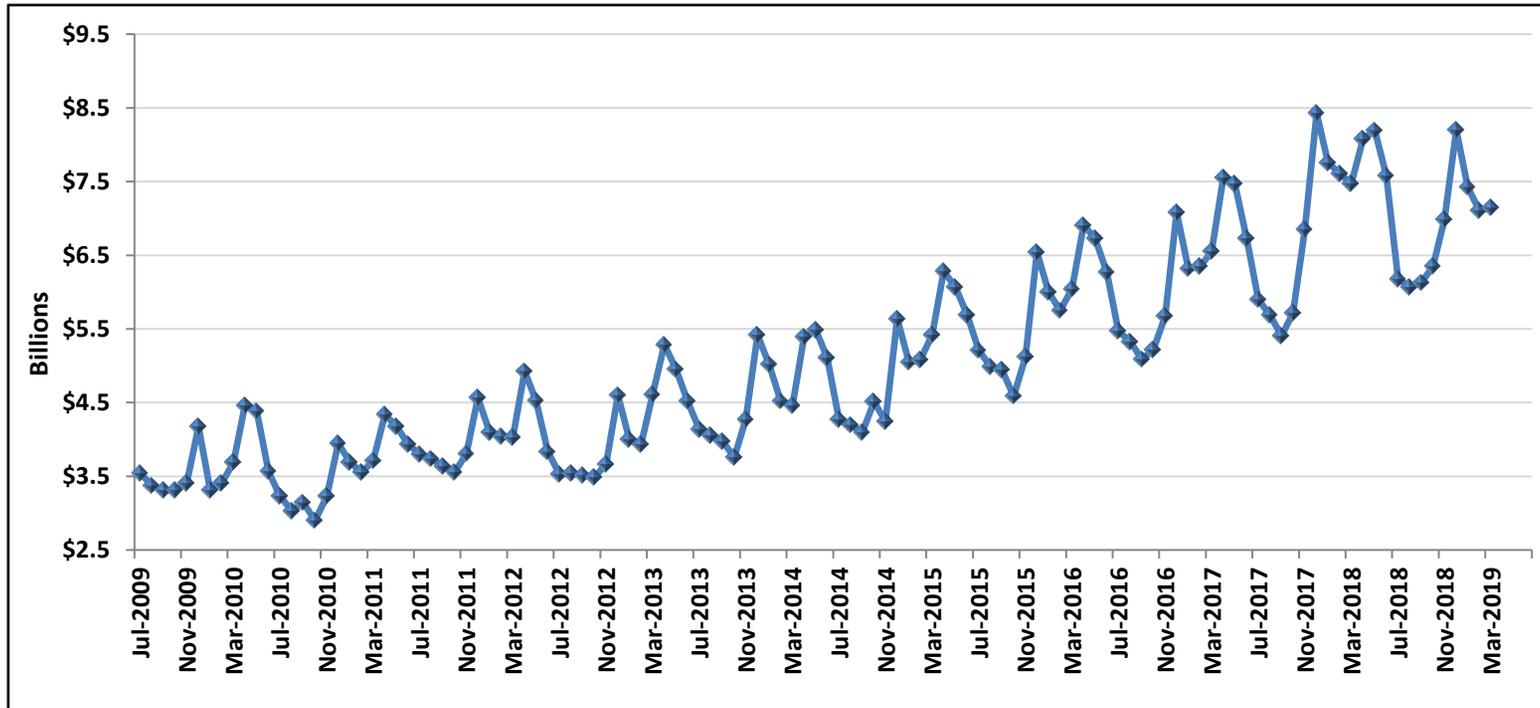
Amounts are based on book values



## Santa Clara County Commingled Pool

### Historical Month End Book Values

March 31, 2019



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	\$7.425	\$7.105	\$7.151			

Amounts in billions

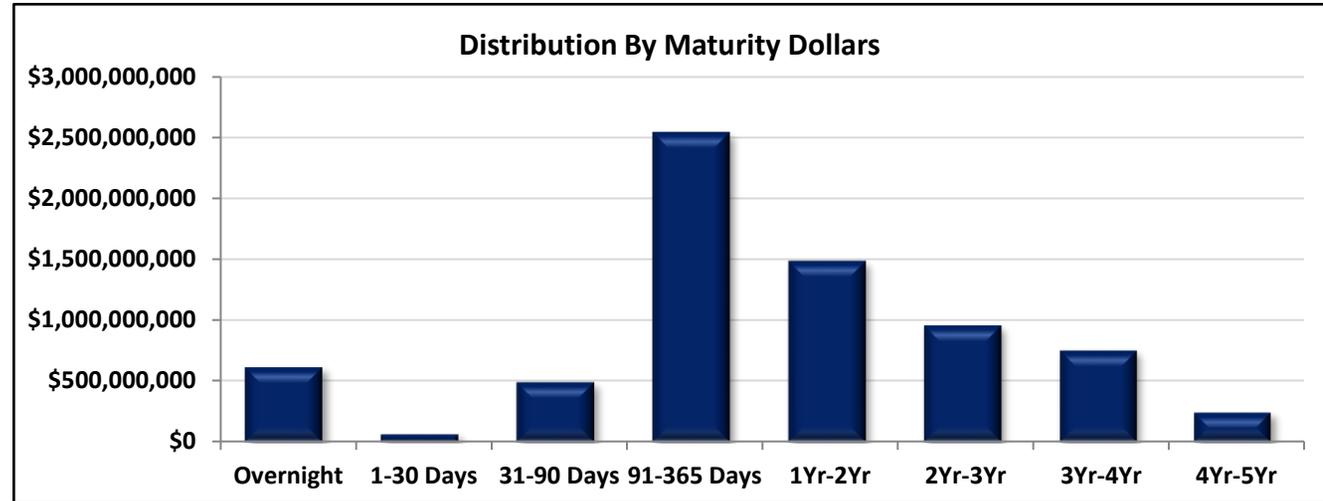


## Santa Clara County Commingled Pool

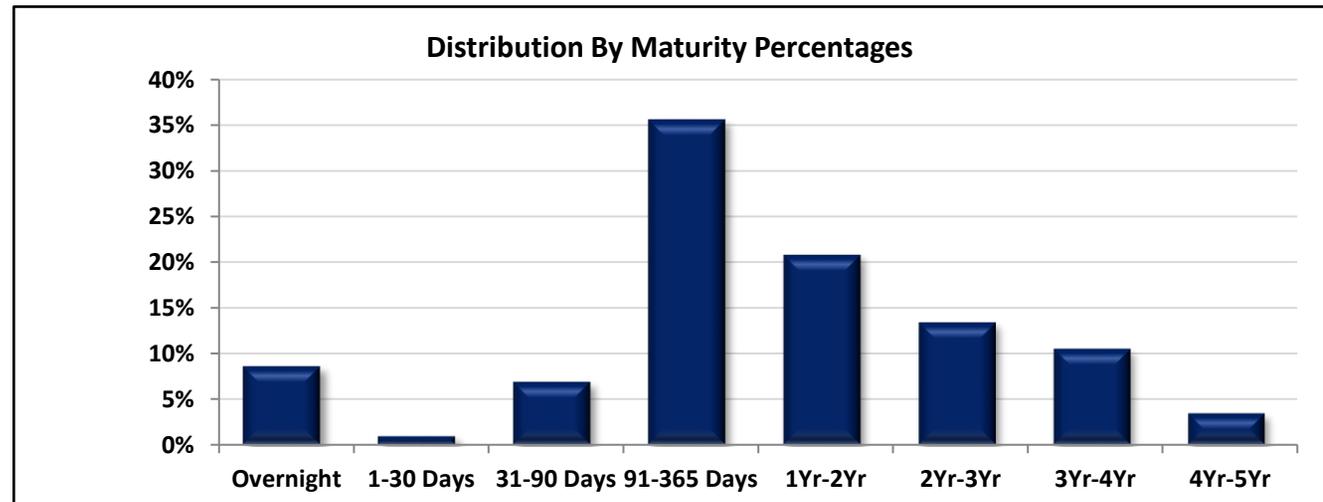
### Distribution by Maturity

March 31, 2019

Maturity	Amount*
Overnight	612,833,164
1-30 Days	63,847,404
31-90 Days	491,672,432
91-365 Days	2,543,445,214
1Yr-2Yr	1,486,398,428
2Yr-3Yr	958,584,079
3Yr-4Yr	751,066,624
4Yr-5Yr	242,833,675
	7,150,681,019



Maturity	Amount*
Overnight	8.57%
1-30 Days	0.89%
31-90 Days	6.88%
91-365 Days	35.57%
1Yr-2Yr	20.79%
2Yr-3Yr	13.41%
3Yr-4Yr	10.50%
4Yr-5Yr	3.40%
	100.00%



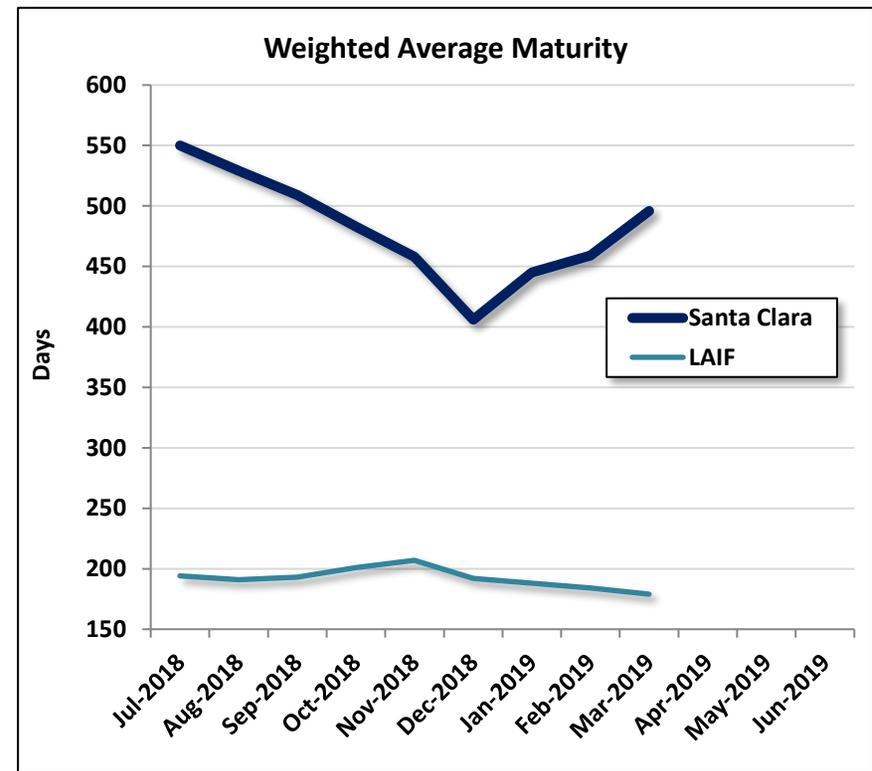
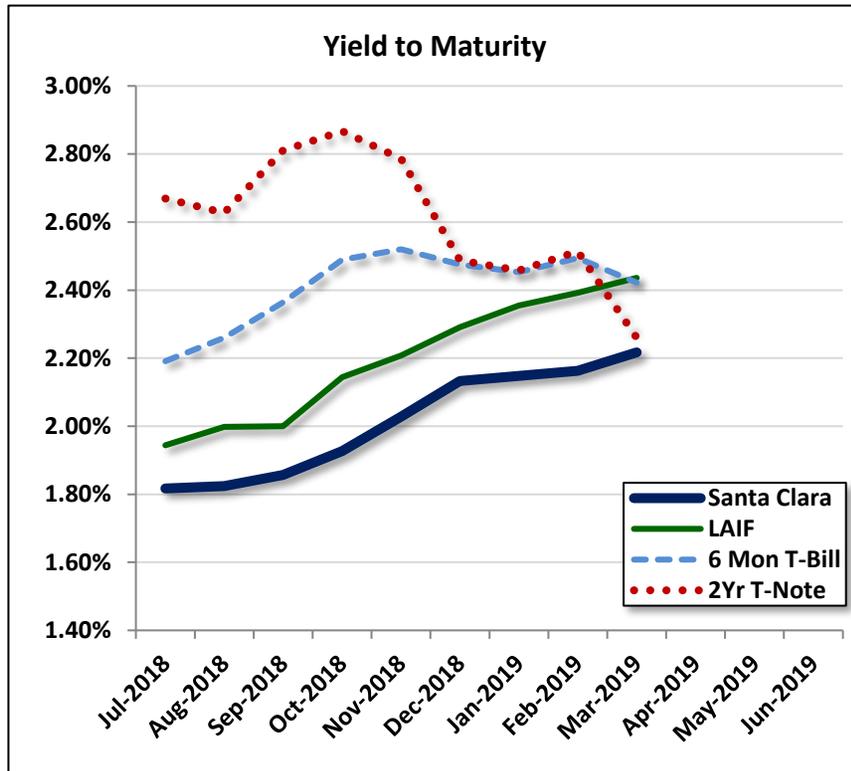
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

March 31, 2019



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%	2.15%	2.16%	2.22%			
LAIF YTM	1.94%	2.00%	2.00%	2.14%	2.21%	2.29%	2.36%	2.39%	2.44%			
6 Mon T-Bill	2.19%	2.26%	2.36%	2.49%	2.52%	2.48%	2.45%	2.49%	2.42%			
2Yr T-Note	2.67%	2.63%	2.81%	2.87%	2.79%	2.49%	2.46%	2.51%	2.26%			
SCC WAM	550	529	509	483	458	406	445	459	496			
LAIF WAM	194	191	193	201	207	192	188	184	179			



## Santa Clara County

### Approved Issuers and Broker/Dealers

March 31, 2019

#### 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 Serviec Inc

Vining Sparks LP

Williams Capital

**Santa Clara County Commingled Pool**  
**Compliance with Investment Policy**  
**March 31, 2019**



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

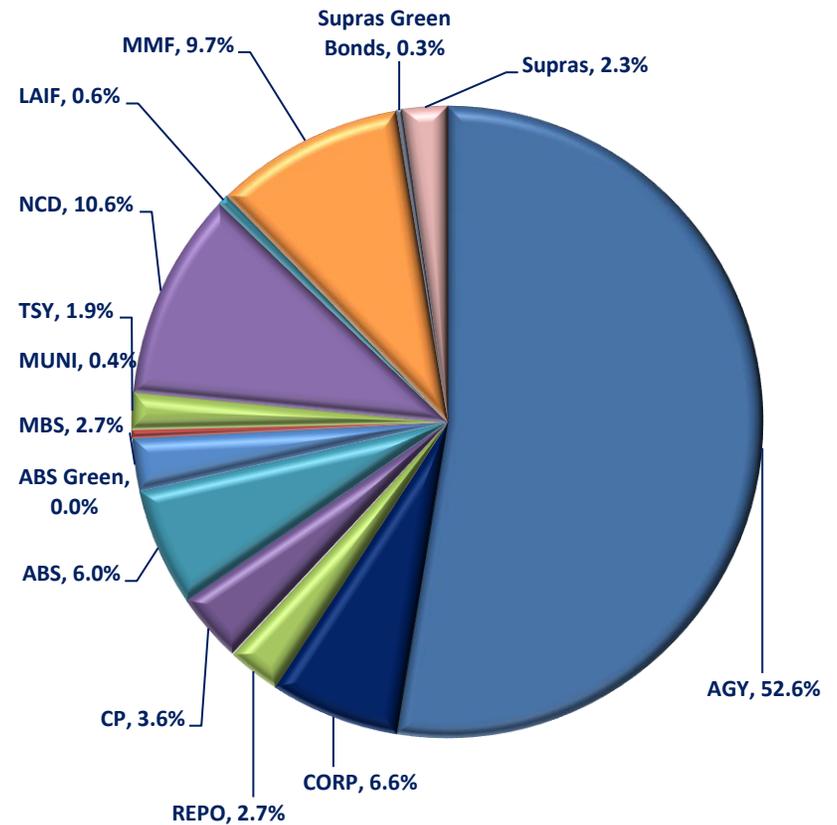
For the Month Ended January 31, 2019

<b>Average Daily Balance</b>	<b>\$ 7,826,109,442.80</b>
<b>Book Yield</b>	<b>2.148%</b>
<b>Weighted Average Maturity</b>	<b>445 Days</b>

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,917.34	\$ 3,914.44	\$ 3,890.13
Corporate Bonds	491.63	490.76	489.36
Repurchase Agreements	200.00	200.00	200.00
Commercial Paper	265.00	264.19	264.21
Asset-Backed Securities	446.73	446.67	445.30
Asset-Backed Sec Green Bds	0.86	0.86	0.86
Mortgage Backed Securities	199.08	199.78	200.12
Municipal Securities	31.97	32.00	31.52
U.S. Treasuries	140.00	139.35	139.17
Negotiable CDs	785.00	785.00	785.53
LAIF	41.52	41.52	41.52
Money Market Funds	715.10	715.10	715.10
Supranationals Green Bonds	25.00	25.00	25.01
Supranationals	170.00	170.13	169.10
<b>Total</b>	<b>\$ 7,429.24</b>	<b>\$ 7,424.79</b>	<b>\$ 7,396.93</b>

\*Represents Amortized Book Value

Asset Allocation By Market Value





## Santa Clara County Commingled Pool

### Allocation by Security Types

For the Month Ended February 28, 2019

<b>Average Daily Balance</b>	<b>\$ 7,288,761,588.25</b>
<b>Book Yield</b>	<b>2.163%</b>
<b>Weighted Average Maturity</b>	<b>459 Days</b>

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,841.75	\$ 3,838.47	\$ 3,814.52
Corporate Bonds	494.63	493.82	492.43
Repurchase Agreements	200.00	200.00	200.00
Commercial Paper	150.00	148.51	148.54
Asset-Backed Securities	474.74	474.61	473.89
Asset-Backed Sec Green Bds	0.68	0.68	0.68
Mortgage Backed Securities	212.76	213.75	214.08
Municipal Securities	31.97	32.00	31.55
U.S. Treasuries	140.00	139.46	139.29
Negotiable CDs	775.00	775.00	775.82
LAIF	41.52	41.52	41.52
Money Market Funds	551.96	551.96	551.96
Supranationals Green Bonds	25.00	25.00	25.01
Supranationals	170.00	170.12	169.19
<b>Total</b>	<b>\$ 7,110.02</b>	<b>\$ 7,104.91</b>	<b>\$ 7,078.49</b>

\*Represents Amortized Book Value

Asset Allocation By Market Value

