

# County of Santa Clara



## Finance Agency Controller-Treasurer Department

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August 16, 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: GEORGE DOORLEY, CONTROLLER-TREASURER *GD*

SUBJECT: COUNTY OF SANTA CLARA TREASURY INVESTMENT PORTFOLIO STATUS

### **RECOMMENDATION**

Receive and file the June 30, 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 June 30, 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	\$8,564,901,892	\$8,588,362,464	\$23,460,572	0.27%

The yield of the pool on June 30, 2019 was 2.27%. As a comparison, on June 30, 2019 the yield of a 6-month Treasury Bill was 2.09%. A two-year Treasury Note was 1.76%. The State of California Local Agency Investment Fund (LAIF) yield was 2.43%.

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:

June 30, 2019 Quarterly Investment Summary



# Quarterly Investment Report

June 30, 2019

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### Quarterly Investment Report Table of Contents

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Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Susan Ellenberg, S. Joseph Simitian

County Executive: Jeffrey V. Smith



## Santa Clara County Commingled Pool and Segregated Investments

June 30, 2019

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$8,564,901,892	\$8,588,362,464	\$23,460,572	0.27%
Worker's Compensation	\$28,864,161	\$29,138,699	\$274,538	0.95%
Park Charter Fund	\$4,251,185	\$4,285,156	\$33,971	0.80%
San Jose-Evergreen	\$17,178,643	\$17,191,225	\$12,582	0.07%
Medical Malpractice Insurance Fund (1)	\$9,374,782	\$9,457,199	\$82,417	0.88%
<b>Total</b>	<b>\$8,624,570,662</b>	<b>\$8,648,434,743</b>	<b>\$23,864,081</b>	<b>0.28%</b>

(1) Managed by Chandler Asset Management, Inc.

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

Fund	2019			2018
	<u>Apr 30</u>	<u>May 31</u>	<u>Jun 30</u>	<u>Jun 30</u>
Commingled Investment Pool	2.28%	2.29%	2.27%	1.79%
Worker's Compensation	2.94%	2.38%	2.37%	1.67%
<b>Weighted Yield</b>	<b>2.28%</b>	<b>2.29%</b>	<b>2.27%</b>	<b>1.79%</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

June 30, 2019

Escalating trade tensions, so far, have not seriously hindered the U.S. domestic economy. Consumer strength continues to support the economy bolstered by a strong labor market and steady wage growth. With current unemployment at 3.7 percent, the lowest since 1969, the U.S. by most measures is at or very close to full employment. In June, U.S. retail sales and factory output exceeded expectations and underscored steady economic growth. Most of the slowing in world growth is coming from outside of the U.S., those economies not resilient enough to withstand headwinds from tariff disputes between the U.S. and China.

Insulated from global trade frictions, domestic service sectors including health care, finance and education remain solidly in expansion mode. U.S. manufacturing and factory output, while still expanding, has decelerated in the past year. New and proposed tariffs have forced domestic producers to contemplate alternative supply chains through other low wage countries, impacting production. But more importantly, the uncertainty over resolution of current trade spats have delayed big spending decisions including capital expenditures and eroded business sentiment. Of note, other issues have also weighed on American manufacturers including the strength of the dollar which has made domestic goods less competitive abroad.

In June 2019, President Donald Trump decided, pending upcoming negotiations, to temporarily hold off imposing higher tariffs on \$300 billion of imported goods from China, the world's second largest economy. Since the onset of this trade dispute, the U.S. had previously increased tariffs by 25 percent on approximately half of all Chinese exports to the U.S.

Evidence of slower growth has been found in widespread weakness in manufacturing and factory output contraction from Europe to Asia. Tariffs have been a heavy burden on China's export sector. In the April-June period, China's economy slowed to the weakest pace since quarterly data began in 1992. Germany with close to 50 percent of its gross domestic product (GDP) coming from exports (mostly autos), is on the verge of a recession, a circumstance exacerbated by U.S. tariffs and faltering global trade. Waning demand for electronics is affecting an industry vital to numerous Asian economies who are export dependent. South Korean exports now have fallen 13.5 percent over the past year.



## Santa Clara County Commingled Pool and Segregated Investments

### Portfolio Strategy

June 30, 2019

By reducing interest rates, the Fed would also be bringing U.S. bond yields into closer alignment with bond yields in other sovereign debt markets. They are substantially lower than in the U.S., and even in some cases, below zero. The United Kingdom 10-year note is around multi-year lows at 81 basis points while the German benchmark yield has pushed significantly below zero and currently yields – 36 basis points. In contrast, as of June 30, 2019, the U.S. Treasury ten-year and two-year note yielded 2 percent and 1.756 percent, respectively. Bloomberg L.P, a provider of financial markets news and data estimates that the current global stockpile of negative yielding debt is approximately \$13 trillion.

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

June 30, 2019

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

The yield of the Commingled Pool is 2.27 and the weighted average life is 436 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.

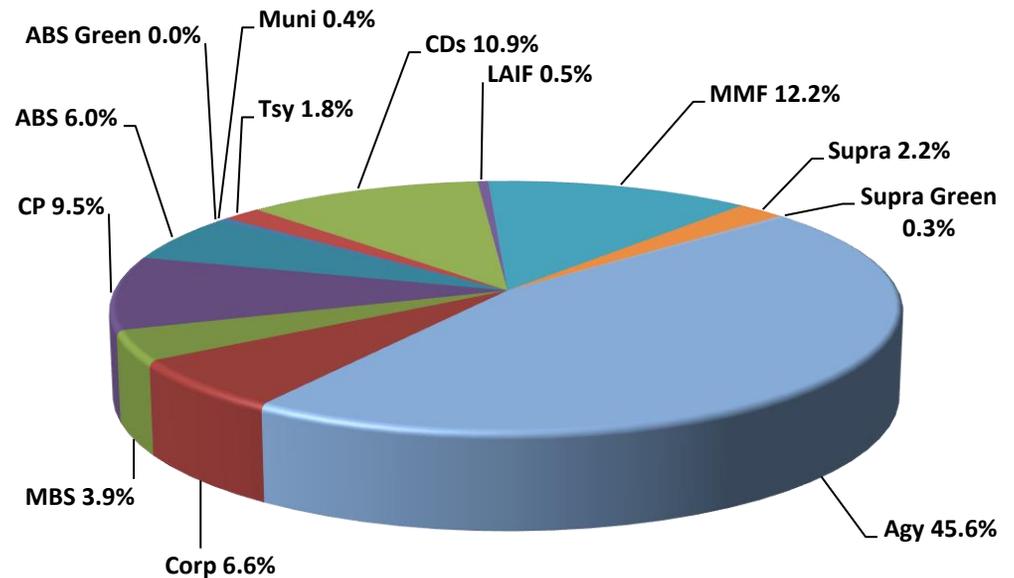


## Santa Clara County Commingled Pool

### Allocation by Security Types

June 30, 2019

Sector	6/30/2019	3/31/2019	% Chng
Federal Agencies	45.58%	53.97%	-8.4%
Corporate Bonds	6.62%	6.81%	-0.2%
Mortgage Backed Securities	3.90%	4.03%	-0.1%
Commercial Paper	9.47%	4.02%	5.4%
ABS	6.04%	6.90%	-0.9%
ABS Green Bonds	0.00%	0.01%	0.0%
Municipal Securities	0.40%	0.53%	-0.1%
U.S. Treasuries	1.81%	1.95%	-0.1%
Negotiable CDs	10.92%	13.43%	-2.5%
LAIF	0.49%	0.58%	-0.1%
Money Market Funds	12.24%	5.05%	7.2%
Supranationals	2.25%	2.38%	-0.1%
Supranationals Green Bonds	0.29%	0.35%	-0.1%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	



Sector	6/30/2019	3/31/2019
Federal Agencies	3,903,465,859	3,858,898,880
Corporate Bonds	567,061,231	487,053,767
Mortgage Backed Securities	334,163,847	287,861,462
Commercial Paper	811,221,473	287,618,194
ABS	517,437,678	493,457,483
ABS Green Bonds	36,538	516,634
Municipal Securities	34,436,493	37,693,061
U.S. Treasuries	154,865,330	139,576,407
Negotiable CDs	935,000,000	960,000,000
LAIF	41,780,631	41,520,182
Money Market Funds	1,048,124,051	361,362,983
Supranational	192,308,761	170,121,967
Supranationals Green Bonds	25,000,000	25,000,000
<b>Total</b>	<b>8,564,901,892</b>	<b>7,150,681,019</b>

Amounts are based on book value

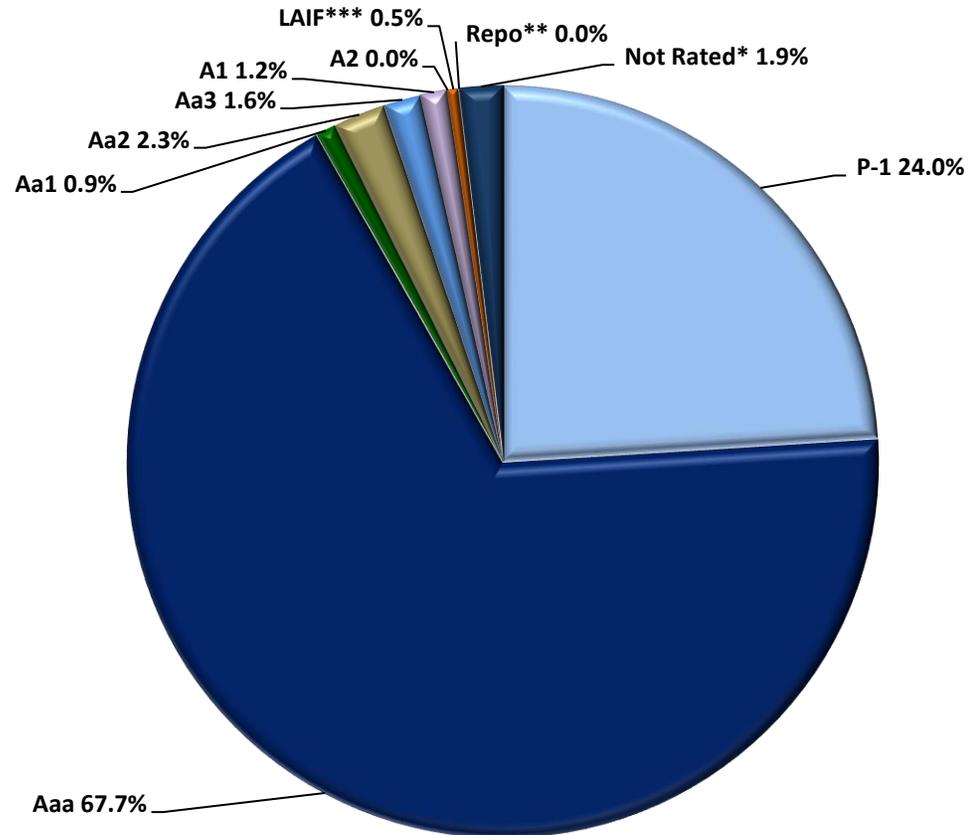


## Santa Clara County Commingled Pool

### Allocation by Ratings

June 30, 2019

Moody's Rating	Portfolio \$	Portfolio %
P-1	2,056,219,442	24.0%
Aaa	5,800,759,441	67.7%
Aa1	74,981,917	0.9%
Aa2	193,780,975	2.3%
Aa3	136,535,047	1.6%
A1	100,022,515	1.2%
A2	-	0.0%
A3	-	0.0%
LAIF***	41,780,631	0.5%
Repo**	-	0.0%
Not Rated*	160,821,924	1.9%
<b>Total</b>	<b>8,564,901,892</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

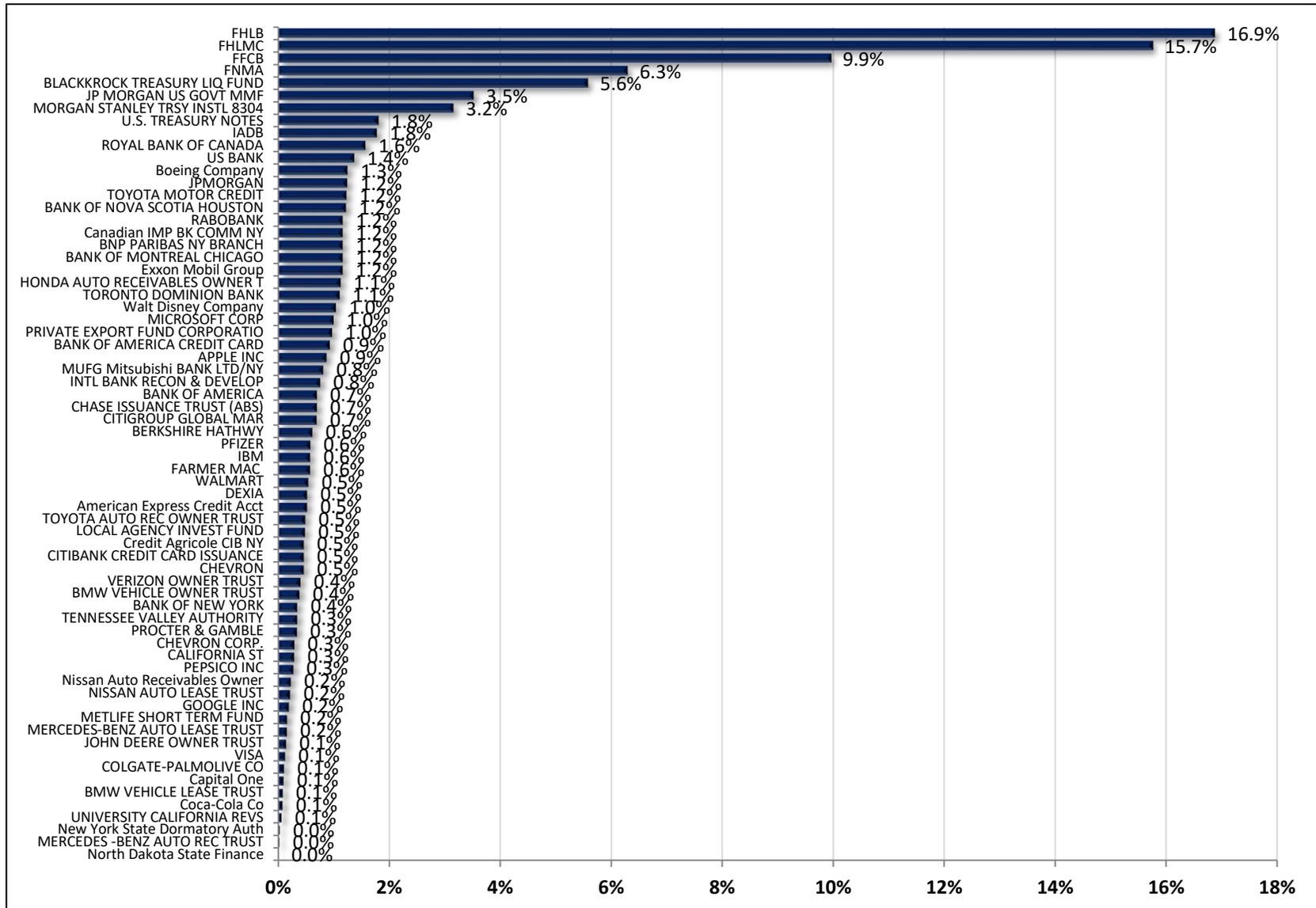
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## Santa Clara County Commingled Pool

### Holdings by Issuer - Percent of Commingled Pool

June 30, 2019



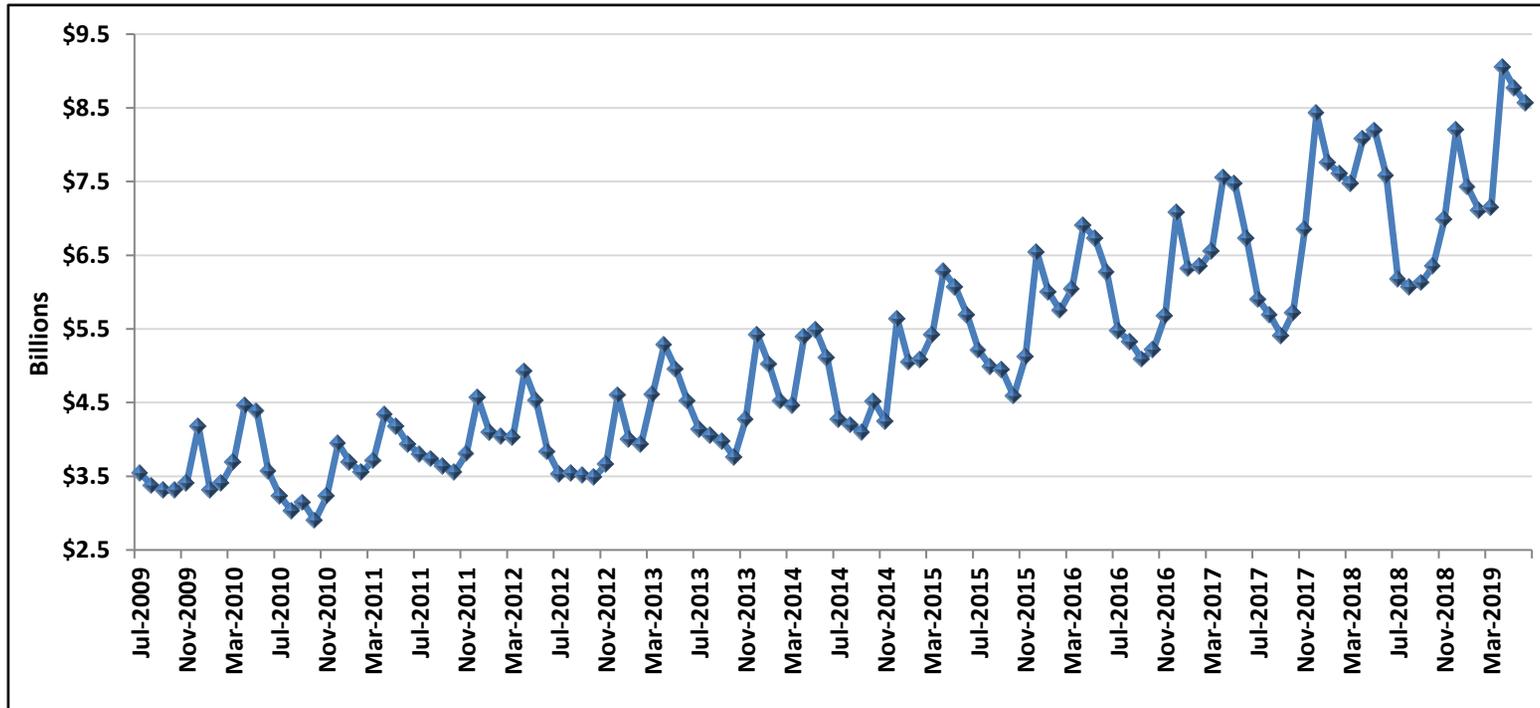
Amounts are based on book values



## Santa Clara County Commingled Pool

### Historical Month End Book Values

June 30, 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	\$9.054	\$8.767	\$8.565

Amounts in billions

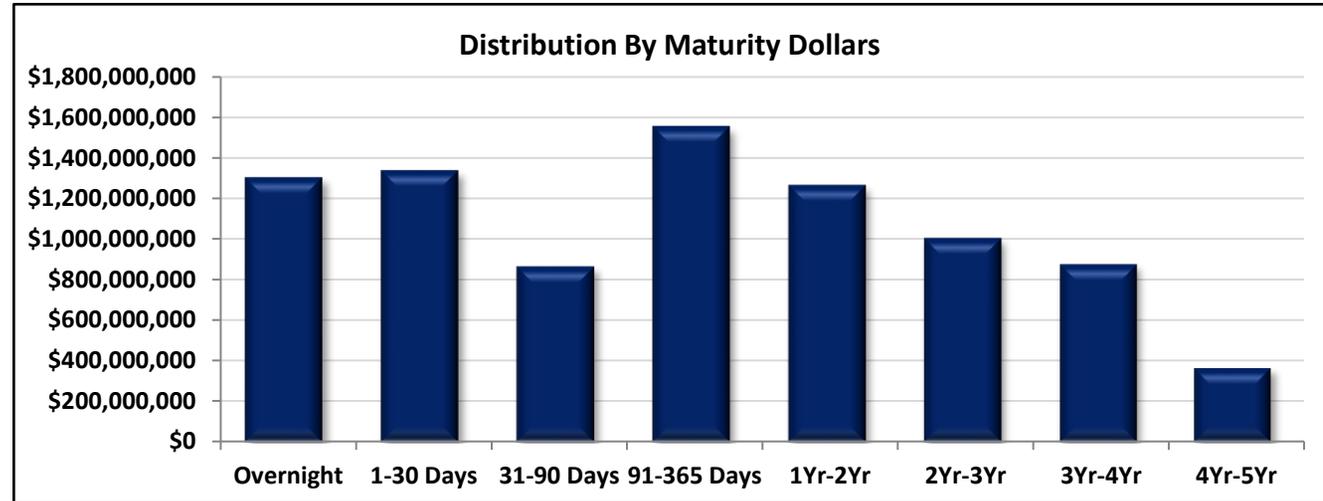


## Santa Clara County Commingled Pool

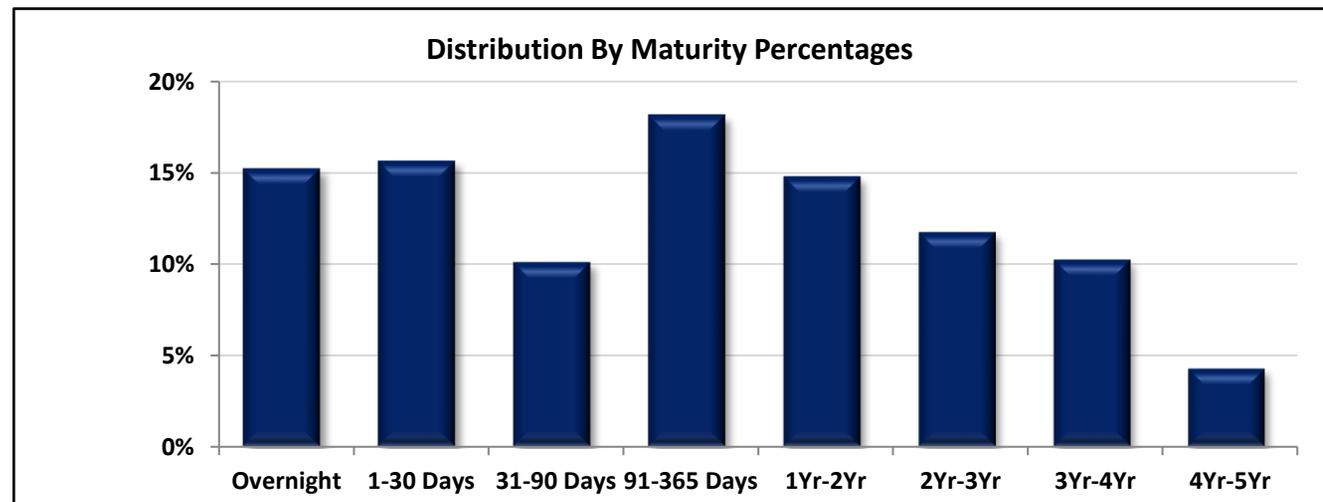
### Distribution by Maturity

June 30, 2019

Maturity	Amount*
Overnight	1,302,904,682
1-30 Days	1,337,512,644
31-90 Days	863,211,086
91-365 Days	1,554,531,312
1Yr-2Yr	1,264,662,326
2Yr-3Yr	1,003,045,780
3Yr-4Yr	874,967,917
4Yr-5Yr	364,066,145
	8,564,901,892



Maturity	Amount*
Overnight	15.21%
1-30 Days	15.62%
31-90 Days	10.08%
91-365 Days	18.15%
1Yr-2Yr	14.77%
2Yr-3Yr	11.71%
3Yr-4Yr	10.22%
4Yr-5Yr	4.25%
	100.00%



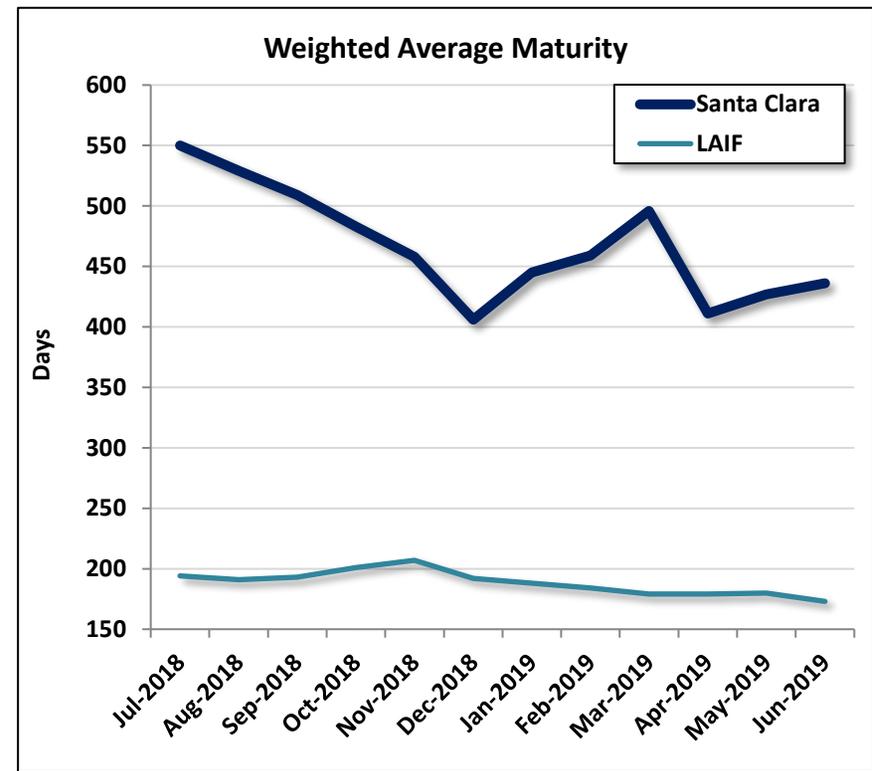
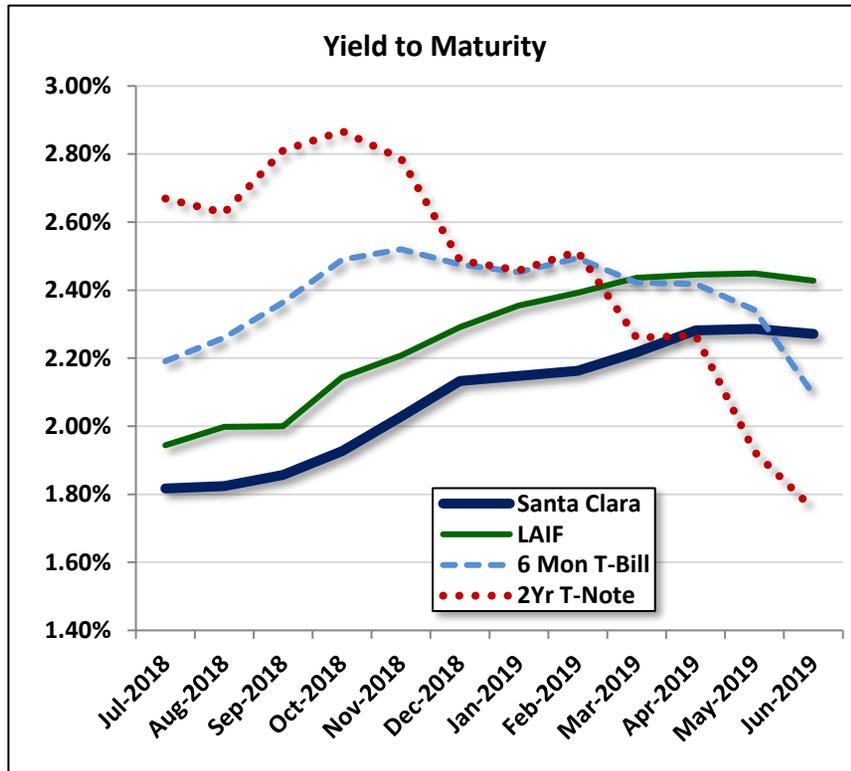
\*Amounts are based on book value



## Santa Clara County Commingled Pool

### Yield to Maturity and Weighted Average Maturity

June 30, 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%	2.28%	2.29%	2.27%
LAIF YTM	1.94%	2.00%	2.00%	2.14%	2.21%	2.29%	2.36%	2.39%	2.44%	2.45%	2.45%	2.43%
6 Mon T-Bill	2.19%	2.26%	2.36%	2.49%	2.52%	2.48%	2.45%	2.49%	2.42%	2.42%	2.34%	2.09%
2Yr T-Note	2.67%	2.63%	2.81%	2.87%	2.79%	2.49%	2.46%	2.51%	2.26%	2.27%	1.92%	1.76%
SCC WAM	550	529	509	483	458	406	445	459	496	411	427	436
LAIF WAM	194	191	193	201	207	192	188	184	179	179	180	173



## Santa Clara County

### Approved Issuers and Broker/Dealers

June 30, 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  
June 30, 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

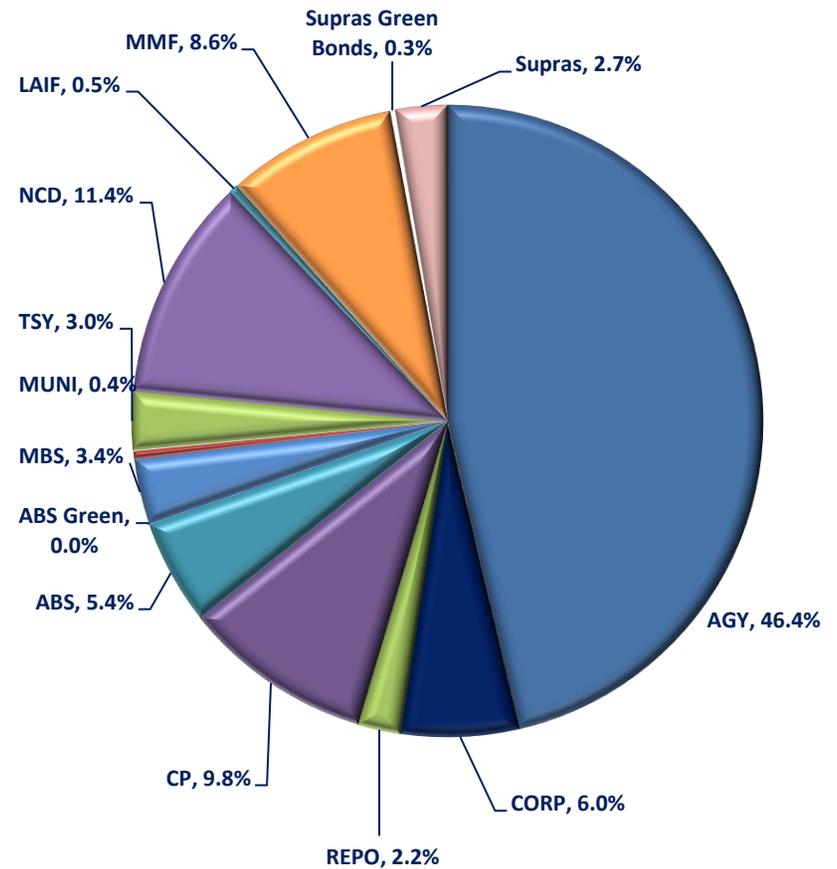
For the Month Ended April 30, 2019

<b>Average Daily Balance</b>	<b>\$ 8,608,998,788.43</b>
<b>Book Yield</b>	<b>2.282%</b>
<b>Weighted Average Maturity</b>	<b>411 Days</b>

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 4,207.81	\$ 4,204.31	\$ 4,192.72
Corporate Bonds	544.56	544.27	543.87
Repurchase Agreements	200.00	200.00	200.00
Commercial Paper	886.63	882.62	882.60
Asset-Backed Securities	485.15	485.02	485.63
Asset-Backed Sec Green Bds	0.35	0.35	0.35
Mortgage Backed Securities	304.28	304.20	305.99
Municipal Securities	37.64	37.69	37.43
U.S. Treasuries	275.00	274.23	274.17
Negotiable CDs	1,030.00	1,030.00	1,030.65
LAIF	41.78	41.78	41.78
Money Market Funds	782.30	782.30	782.30
Suprationals Green Bonds	25.00	25.00	25.01
Suprationals	242.00	242.14	241.46
<b>Total</b>	<b>\$ 9,062.50</b>	<b>\$ 9,053.89</b>	<b>\$ 9,043.97</b>

\*Represents Amortized Book Value

Asset Allocation By Market Value





## Santa Clara County Commingled Pool

### Allocation by Security Types

For the Month Ended May 31, 2019

<b>Average Daily Balance</b>	<b>\$ 8,920,878,183.75</b>
<b>Book Yield</b>	<b>2.286%</b>
<b>Weighted Average Maturity</b>	<b>427 Days</b>

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,979.70	\$ 3,976.55	\$ 3,978.86
Corporate Bonds	567.30	567.05	568.53
Repurchase Agreements	200.00	200.00	200.00
Commercial Paper	896.63	893.52	893.21
Asset-Backed Securities	489.35	489.21	491.14
Asset-Backed Sec Green Bds	0.19	0.19	0.19
Mortgage Backed Securities	322.97	322.55	327.90
Municipal Securities	34.39	34.44	34.34
U.S. Treasuries	255.00	254.60	254.64
Negotiable CDs	1,015.00	1,015.00	1,015.55
LAIF	41.78	41.78	41.78
Money Market Funds	704.65	704.65	704.65
Suprationals Green Bonds	25.00	25.00	25.01
Suprationals	242.00	242.23	242.09
<b>Total</b>	<b>\$ 8,773.96</b>	<b>\$ 8,766.76</b>	<b>\$ 8,777.90</b>

\*Represents Amortized Book Value

Asset Allocation By Market Value

