

City of Santa Rosa

Monthly Investment Report

July 31, 2017

City's Investment Objectives

- **Investment Objectives:** In accordance with the City's Investment Policy, the City's primary objectives in order of priority are:
 - **Safety** – Safety of principal is the foremost objective of the investment program. Investments for the City will be made in a manner that seeks to ensure the preservation of capital in the overall portfolio.
 - **Liquidity** – The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
 - **Yield** – The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints, liquidity needs, and cash flow characteristics of the portfolio.
- **Certification:** The City has sufficient funds to meet expenditures for the following six-month period.

Investment Guidelines

- The City invests in permitted securities consistent with California Government Code sections §53601, 53635, and 16429.1. The City's Investment Policy includes additional sector allocation and maturity restrictions that reflect the City's risk tolerances.

Security Type	California Government Code	City's Investment Policy
U.S. Treasury Notes	✓	✓
Federal Agencies	✓	✓
International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank Bonds	✓	
CA Municipal Investments	✓	✓
State Municipals	✓	✓
Corporate Notes	✓	✓
Mortgage-Backed Securities	✓	✓
Commercial Paper	✓	✓
Time Certificates of Deposit	✓	✓
Negotiable Certificates of Deposit	✓	✓
Bankers' Acceptances	✓	✓
Repurchase Agreements	✓	✓
Reverse Repurchase Agreements	✓	
Mutual Funds	✓	✓
Money Market Funds	✓	✓
Local Government Pools	✓	✓
Local Agency Investment Fund (LAIF)	✓	✓

Market Summary

Economic Conditions

- U.S. real GDP expanded at an annual rate of 2.6% in the second quarter (first estimate), with all four major components—personal consumption, government spending, investment and net exports—contributing to economic growth.
- The U.S. economy added 209,000 jobs in July, confirming a strong labor market. The unemployment rate ticked down to 4.3%, while average hourly earnings stayed at a modest 2.5% growth rate year-over-year (YOY).
- The housing market seems to have leveled off a bit. Existing home sales dropped in June, while the trajectories of new housing plans and building permits slowed. Dwindling inventories contributed to record median home prices.
- Inflation measures continue to moderate. The core personal consumption expenditures price index—the Federal Reserve’s (Fed) preferred measure of inflation—held at 1.5% YOY in June but is down from 1.8% a few months ago.
- The Federal Open Market Committee (FOMC) left rates unchanged in July, as expected. The committee expects one more rate hike this year, although the market-implied probability for another hike in 2017 has fallen to around 40%. Most importantly, the Fed is expected to begin balance sheet reductions “relatively soon.”

Market Reaction

- Most U.S. Treasury yields were little changed in July as investors awaited clarity on economic conditions, expected Fed actions, and tax and spending policies.
- The Treasury Department continues to employ “extraordinary measures” to prevent the U.S. from defaulting on its obligations as Congress considers increasing the statutory debt limit. Yields on Treasury bills maturing in October spiked because these maturities could be directly affected if the debt limit is not raised by the end of September.
- Agency yield spreads remained remarkably narrow, while corporate yield spreads tightened to new multi-year lows. Performance of corporate bonds continues to outpace comparable-maturity Treasuries.
- Yield spreads on short-term credit instruments such as commercial paper and bank certificates of deposit, which were exceptionally wide during last year’s money market reform implementation, have returned to more typical levels.

Portfolio Information Summary

Funds Included in Report

- The following report includes the City's funds held in overnight investment vehicles (savings accounts, money market funds, and CA state investment pool) and a portfolio of individual fixed income securities (operating and bond proceeds).

Portfolio Summary and Characteristics

- Funds are shown on a par, amortized cost, and market value basis.
 - Par Value. Face value, stated value, or maturity value of a security.
 - Amortized Cost Value (Book Value). Represents the original cost of an investment adjusted for amortization of premium or accretion of discount.
 - Market Value. The current price at which that security is trading between buyers and sellers. Valuation highly dependent on interest rate movements.
- The investment sector and credit ratings distribution is shown based on market value basis.
- Demonstrates level of diversification by investment type and credit quality. Additionally, illustrates active management of funds to optimize value in the current market.

Investment Program Maturity Summary

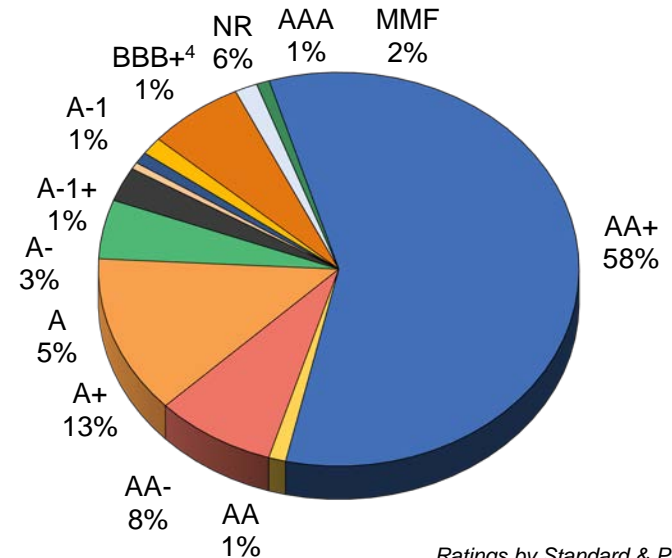
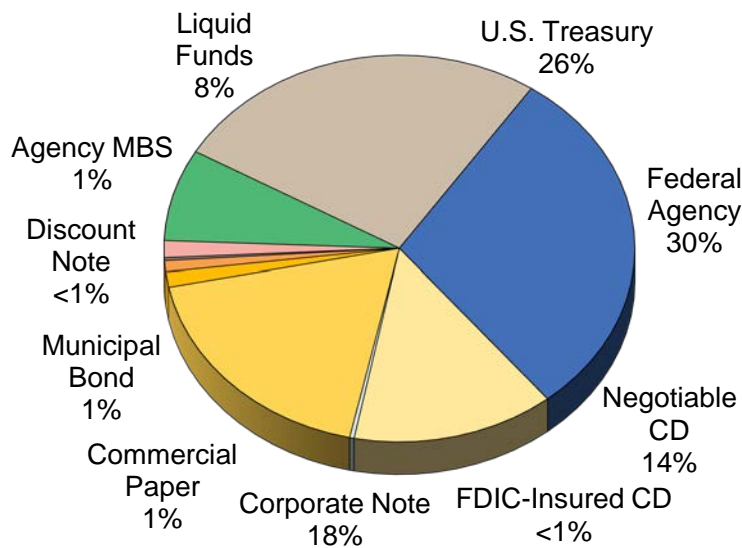
- The maturity distribution of the City's funds (market value plus accrued interest) from one day to the five-year mandated limit.
- The change in by percentage in maturity distribution month-over-month is shown in the table.
- Demonstrates level of diversification by maturity date. Shows placement of funds to take advantage of opportunities while ensuring that the City has funds to meet its cash flow needs.

Portfolio Yield Summary

- The historical yield and duration of the City's funds, effective monthly yield for the California Local Government Investment Fund (LAIF), and the monthly yield for the Bank of America/Merrill Lynch 1–3 year Treasury Index is shown for the trailing six months.
- A historical record of the City's overall fund balance and earnings rates.

Portfolio Summary and Characteristics

Security Type	Par Value	Amortized Cost Value ¹	Market Value ¹	July 31, 2017 % of Portfolio ³
U.S. Treasury	\$99,255,000	\$99,629,997	\$99,612,248	26%
Federal Agency	\$113,478,000	\$113,717,270	\$113,096,240	30%
Federal Agency Mortgage-Backed	\$5,359,737	\$5,388,842	\$5,367,504	1%
Negotiable CD	\$52,650,000	\$52,945,607	\$53,033,487	14%
FDIC-Insured CD	\$1,176,880	\$1,179,342	\$1,173,027	<1%
Corporate Notes	\$69,584,000	\$69,950,757	\$70,072,862	18%
Commercial Paper	\$4,875,000	\$4,869,961	\$4,869,902	1%
Municipal Bond	\$3,525,000	\$3,550,000	\$3,500,594	1%
Discount Note	\$931,000	\$930,175	\$930,155	<1%
Liquid Funds²	\$29,344,595	\$29,344,595	\$29,344,595	8%
Total Value	\$380,179,212	\$381,506,547	\$381,000,613	100%

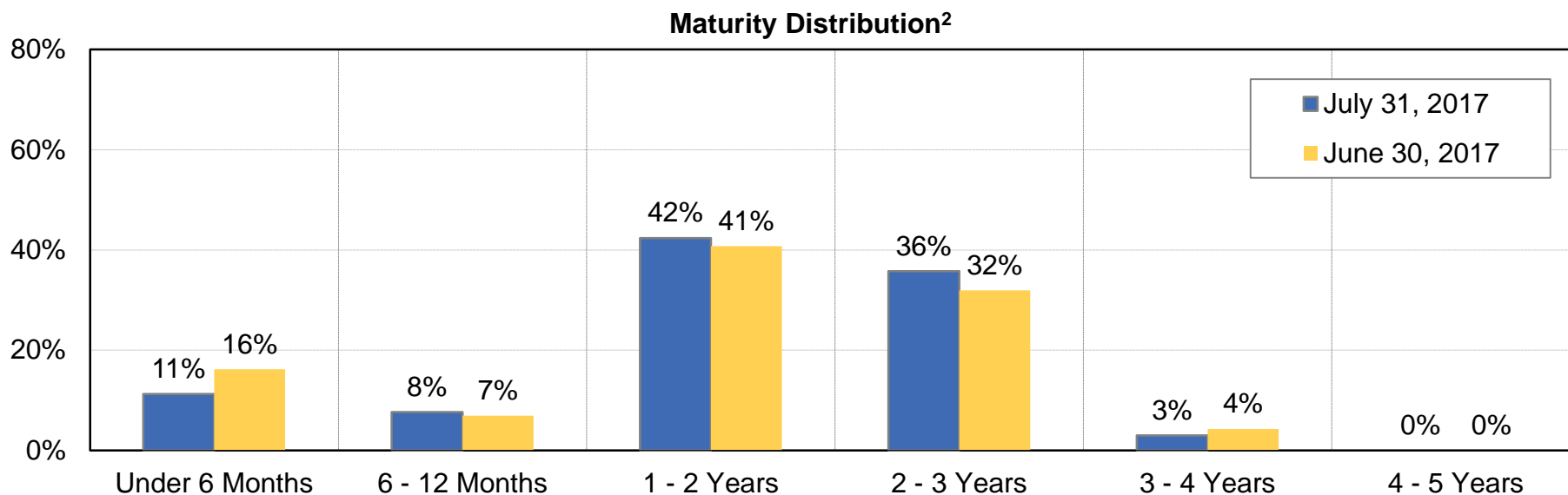


Ratings by Standard & Poor's

1. Security market values include accrued interest as of trade date.
2. Liquid Funds include the City's LAIF, PFM Funds-Prime Money Market Fund, Wells Fargo Peg & Sweep, and custody account cash balances.
3. Based on market value plus accrued interest. Percentages may not add exactly to 100% due to rounding.
4. Credit rating for security was compliant at the time of purchase. City has elected to hold security until it is advantageous to sell or to maturity.

Investment Program Maturity Summary

Maturity ¹	Market Value ²	July 31, 2017 % of Portfolio	June 30, 2017 % of Portfolio
Under 6 Months	\$42,865,154	11%	16%
6 - 12 Months	\$29,017,648	8%	7%
1 - 2 Years	\$161,493,612	42%	41%
2 - 3 Years	\$136,240,678	36%	32%
3 - 4 Years	\$11,383,521	3%	4%
4 - 5 Years	\$0	0%	0%
Total Market Value	\$381,000,613	100%	100%

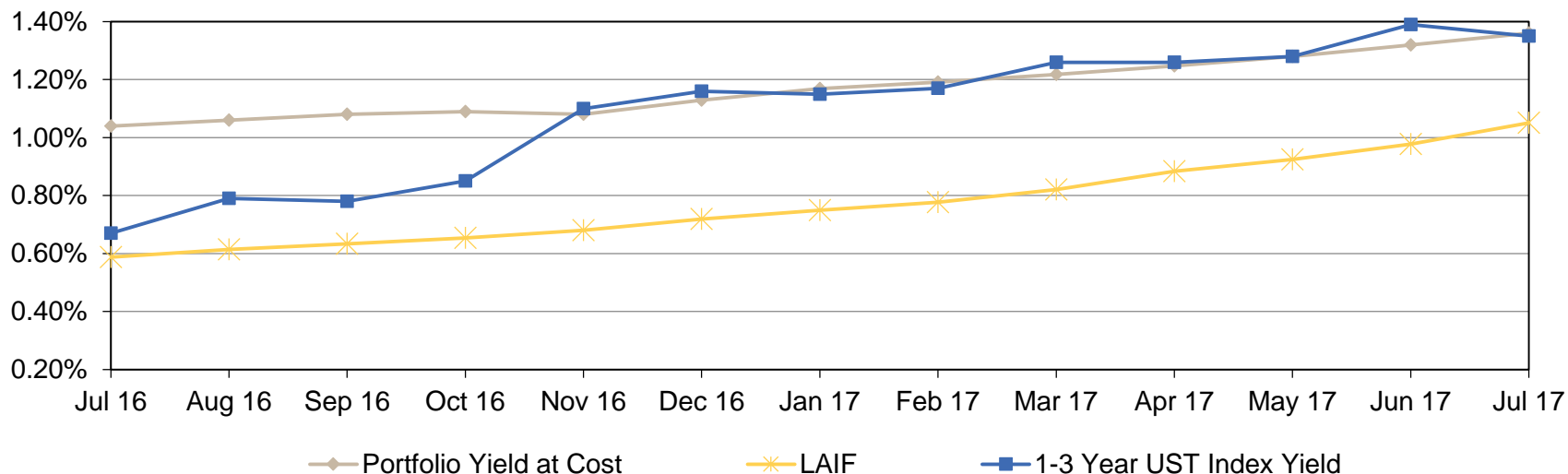


1. Funds held in LAIF are included in the under 6-month range because they can be accessed within one day.
 2. Security market values include accrued interest as of trade date. Values may not sum exactly to 100% due to rounding.

Portfolio Yield Summary

Date	Market Value ¹	Portfolio Duration	Portfolio Yield (Cost)	LAIF Yield (Monthly Effective) ²	1-3 Year Treasury Index Yield ²
Jan-17	\$371,989,104	1.54	1.17%	0.75%	1.15%
Feb-17	\$371,278,723	1.52	1.19%	0.78%	1.17%
Mar-17	\$371,292,136	1.47	1.22%	0.82%	1.26%
Apr-17	\$407,807,365	1.51	1.25%	0.88%	1.26%
May-17	\$398,552,784	1.50	1.28%	0.93%	1.28%
Jun-17	\$398,160,931	1.55	1.32%	0.98%	1.39%
Jul-17	\$381,000,613	1.61	1.36%	1.05%	1.35%

Comparison of Combined Portfolio Yield, BAML 1-3 Year Treasury Index², and LAIF³



1. Security market values include accrued interest as of trade date.
2. Source: Bank of America/Merrill Lynch Global Bond Indices
3. Source: California State Treasurer's Website. Average monthly effective yield.



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

CITY OF SANTA ROSA (PFM)

Transaction Type					Principal	Accrued		Realized G/L	Realized G/L	Sale
Trade	Settle	Security Description	CUSIP	Par	Proceeds	Interest	Total	Cost	Amort Cost	Method
BUY										
07/05/17	07/07/17	US TREASURY NOTES DTD 07/31/2015 1.625% 07/31/2020	912828XM7	10,000,000.00	(10,006,250.00)	(70,476.52)	(10,076,726.52)			
07/17/17	07/20/17	AMERICAN HONDA FINANCE CORP NOTES DTD 07/20/2017 1.950% 07/20/2020	02665WBT7	720,000.00	(719,272.80)	0.00	(719,272.80)			

Transaction Type Sub-Total **10,720,000.00** **(10,725,522.80)** **(70,476.52)** **(10,795,999.32)**

INTEREST										
07/01/17	07/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	1,545,555.04	0.00	2,299.01	2,299.01			
07/01/17	07/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AODO0	2,264,273.52	0.00	5,283.98	5,283.98			
07/01/17	07/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	1,190,197.77	0.00	1,542.29	1,542.29			
07/01/17	07/25/17	FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019	3136AOSW1	1,160,000.00	0.00	1,834.81	1,834.81			
07/05/17	07/05/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	1,117.60	1,117.60			
07/10/17	07/10/17	SVENSKA HANDELSBANKEN NY LT CD DTD 01/12/2017 1.890% 01/10/2019	86958JHB8	5,850,000.00	0.00	54,975.38	54,975.38			
07/13/17	07/13/17	TOYOTA MOTOR CREDIT CORP DTD 07/13/2015 1.550% 07/13/2018	89236TCP8	1,300,000.00	0.00	10,075.00	10,075.00			
07/15/17	07/15/17	BB&T CORP NOTE DTD 12/08/2014 2.450% 01/15/2020	05531FAS2	605,000.00	0.00	7,411.25	7,411.25			
07/16/17	07/16/17	FHLB NOTES DTD 12/08/2016 1.250% 01/16/2019	3130AAE46	5,450,000.00	0.00	34,062.50	34,062.50			
07/17/17	07/17/17	FREDDIE MAC AGENCY NOTE DTD 01/17/2017 1.500% 01/17/2020	3137EAE5	6,250,000.00	0.00	46,875.00	46,875.00			
07/19/17	07/19/17	FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAE1	7,250,000.00	0.00	31,718.75	31,718.75			
07/23/17	07/23/17	JPMORGAN CHASE & CO (CALLABLE) DTD 01/23/2015 2.250% 01/23/2020	46625HKA7	3,250,000.00	0.00	36,562.50	36,562.50			
07/27/17	07/27/17	MORGAN STANLEY CORP BONDS DTD 01/27/2015 2.650% 01/27/2020	61747YDW2	1,450,000.00	0.00	19,212.50	19,212.50			



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

CITY OF SANTA ROSA (PFM)

Transaction Type					Principal	Accrued		Realized G/L	Realized G/L	Sale
Trade	Settle	Security Description	CUSIP	Par	Proceeds	Interest	Total	Cost	Amort Cost	Method
INTEREST										
07/31/17	07/31/17	US TREASURY NOTES DTD 07/31/2015 1.625% 07/31/2020	912828XM7	10,000,000.00	0.00	81,250.00	81,250.00			
07/31/17	07/31/17	AMERICAN EXPRESS CRD CRP NT (CALLABLE) DTD 07/31/2015 1.800% 07/31/2018	0258M0DV8	1,025,000.00	0.00	9,225.00	9,225.00			
07/31/17	07/31/17	US TREASURY NOTES DTD 01/31/2014 1.500% 01/31/2019	912828B33	1,850,000.00	0.00	13,875.00	13,875.00			
07/31/17	07/31/17	US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	7,050,000.00	0.00	44,062.50	44,062.50			
Transaction Type Sub-Total				57,490,026.33	0.00	401,383.07	401,383.07			
PAYDOWNS										
07/01/17	07/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AQDQ0	121,058.27	121,058.27	0.00	121,058.27	(1,212.26)	0.00	
07/01/17	07/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	541,189.08	541,189.08	0.00	541,189.08	(5,411.62)	0.00	
07/01/17	07/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	138,041.90	138,041.90	0.00	138,041.90	(1,379.92)	0.00	
Transaction Type Sub-Total				800,289.25	800,289.25	0.00	800,289.25	(8,003.80)	0.00	
SELL										
07/05/17	07/07/17	FHLB NOTES DTD 07/08/2016 0.625% 08/07/2018	3130A8PK3	5,250,000.00	5,209,837.50	13,671.88	5,223,509.38	(29,242.50)	(34,454.54)	FIFO
07/05/17	07/07/17	US BANK NA CINCIN CD(CALLED OMD 9/11/17) DTD 09/11/2014 1.375% 08/11/2017	90333VPF1	4,600,000.00	4,601,012.00	20,380.56	4,621,392.56	8,418.00	1,457.97	FIFO
07/17/17	07/20/17	TEXAS INSTRUMENTS CORP NOTE DTD 05/08/2013 1.000% 05/01/2018	882508AV6	525,000.00	523,157.25	1,152.08	524,309.33	4,021.50	(345.23)	FIFO
Transaction Type Sub-Total				10,375,000.00	10,334,006.75	35,204.52	10,369,211.27	(16,803.00)	(33,341.80)	
Managed Account Sub-Total					408,773.20	366,111.07	774,884.27	(24,806.80)	(33,341.80)	



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

CITY OF SANTA ROSA (PFM)

Total Security Transactions	\$408,773.20	\$366,111.07	\$774,884.27	(\$24,806.80)	(\$33,341.80)
------------------------------------	---------------------	---------------------	---------------------	----------------------	----------------------



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

CITY OF SANTA ROSA

Transaction Type					Principal	Accrued		Realized G/L	Realized G/L	Sale
Trade	Settle	Security Description	CUSIP	Par	Proceeds	Interest	Total	Cost	Amort Cost	Method
INTEREST										
07/20/17	07/20/17	WELLS FARGO BANK NA FDIC CD DTD 09/20/2016 0.420% 09/20/2018	RE1253765	187,647.00	0.00	64.78	64.78			
Transaction Type Sub-Total				187,647.00	0.00	64.78	64.78			
Managed Account Sub-Total					0.00	64.78	64.78			
Total Security Transactions					\$0.00	\$64.78	\$64.78			



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

SANTA ROSA FNTNGROVE 2011 A RESERVE FUND

Transaction Type					Principal	Accrued		Realized G/L	Realized G/L	Sale
Trade	Settle	Security Description	CUSIP	Par	Proceeds	Interest	Total	Cost	Amort Cost	Method
INTEREST										
07/03/17	07/03/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.78	0.78			
Transaction Type Sub-Total				0.00	0.00	0.78	0.78			
Managed Account Sub-Total					0.00	0.78	0.78			
Total Security Transactions					\$0.00	\$0.78	\$0.78			



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

SANTA ROSA SKYHAWK 2011A RESERVE FUND

Transaction Type					Principal	Accrued		Realized G/L	Realized G/L	Sale
Trade	Settle	Security Description	CUSIP	Par	Proceeds	Interest	Total	Cost	Amort Cost	Method
INTEREST										
07/03/17	07/03/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.40	0.40			
Transaction Type Sub-Total				0.00	0.00	0.40	0.40			
Managed Account Sub-Total					0.00	0.40	0.40			
Total Security Transactions					\$0.00	\$0.40	\$0.40			



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

SANTA ROSA WATER 2008 RSV AC

Transaction Type		Security Description	CUSIP	Par	Principal Proceeds	Accrued Interest	Total	Realized G/L Cost	Realized G/L Amort Cost	Sale Method
Trade	Settle									
INTEREST										
07/03/17	07/03/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	1.20	1.20			
Transaction Type Sub-Total				0.00	0.00	1.20	1.20			
Managed Account Sub-Total					0.00	1.20	1.20			
Total Security Transactions					\$0.00	\$1.20	\$1.20			



Managed Account Security Transactions & Interest

For the Month Ending July 31, 2017

SANTA ROSA 2014A WASTEWATER PROJECT FUND										
Transaction Type					Principal	Accrued		Realized G/L	Realized G/L	Sale
Trade	Settle	Security Description	CUSIP	Par	Proceeds	Interest	Total	Cost	Amort Cost	Method
BUY										
07/06/17	07/07/17	FEDERAL HOME LOAN BANKS DISC NOTE DTD 09/01/2016 0.000% 09/01/2017	313385LD6	931,000.00	(929,509.78)	0.00	(929,509.78)			
Transaction Type Sub-Total				931,000.00	(929,509.78)	0.00	(929,509.78)			
INTEREST										
07/05/17	07/05/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	71.69	71.69			
Transaction Type Sub-Total				0.00	0.00	71.69	71.69			
MATURITY										
07/03/17	07/03/17	TOYOTA MOTOR CREDIT CORP COMM PAPER -- 0.000% 07/03/2017	89233GU38	500,000.00	500,000.00	0.00	500,000.00	1,785.00	0.00	
07/03/17	07/03/17	BANK TOKYO-MIT UFJ NY COMM PAPER DTD 01/04/2017 0.000% 07/03/2017	06538BU35	500,000.00	500,000.00	0.00	500,000.00	1,980.56	0.00	
07/03/17	07/03/17	BNP PARIBAS NY BRANCH COMM PAPER -- 0.000% 07/03/2017	09659BU32	500,000.00	500,000.00	0.00	500,000.00	1,825.56	0.00	
07/07/17	07/07/17	CREDIT AGRICOLE CIB NY COMM PAPER DTD 01/09/2017 0.000% 07/07/2017	22533TU79	250,000.00	250,000.00	0.00	250,000.00	1,020.14	0.00	
07/07/17	07/07/17	CREDIT AGRICOLE CIB NY COMM PAPER DTD 01/09/2017 0.000% 07/07/2017	22533TU79	250,000.00	250,000.00	0.00	250,000.00	1,004.44	0.00	
07/07/17	07/07/17	GE CAPITAL TREASURY LLC COMM PAPER DTD 02/24/2017 0.000% 07/07/2017	36164JU77	430,000.00	430,000.00	0.00	430,000.00	1,360.71	0.00	
Transaction Type Sub-Total				2,430,000.00	2,430,000.00	0.00	2,430,000.00	8,976.41	0.00	
Managed Account Sub-Total					1,500,490.22	71.69	1,500,561.91	8,976.41	0.00	
Total Security Transactions					\$1,500,490.22	\$71.69	\$1,500,561.91	\$8,976.41	\$0.00	



Managed Account Security Transactions & Interest

For the Month Ending **July 31, 2017**

SANTA ROSA WSTWTR REV BDS COM RES

Transaction Type		Security Description	CUSIP	Par	Principal Proceeds	Accrued Interest	Total	Realized G/L Cost	Realized G/L Amort Cost	Sale Method
Trade	Settle									
INTEREST										
07/03/17	07/03/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	1.27	1.27			
Transaction Type Sub-Total				0.00	0.00	1.27	1.27			
Managed Account Sub-Total					0.00	1.27	1.27			
Total Security Transactions					\$0.00	\$1.27	\$1.27			