

City of Santa Rosa

Monthly Investment Report

January 31, 2018

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

- Building on the themes of 2017, the global economy began 2018 with positive momentum marked by strong consumer spending and improving business investment. Yields rose and equity prices surged before an early February jolt.
- The first reading of fourth quarter Gross Domestic Product (GDP) showed that the U.S. economy grew at an annual pace of 2.6% and 2.3% for the year. Economists' projections for the four quarters are similar, with estimates for GDP growth in the 2.4% to 2.6% range.
- The U.S. economy added 200,000 jobs in January, outpacing both expectations (180,000) and the December reading (revised up to 160,000). Headline unemployment remained unchanged at 4.1%, matching a 17-year low. The surprise of the Labor Department's jobs report was a surge in wages as average hourly earnings rose 2.9% over the past 12 months, the highest level since 2009.
- At its January meeting, the Federal Open Market Committee (FOMC) left the overnight federal funds target rate unchanged at its current range of 1.25% to 1.50%, but signaled that a rate increase is likely in March, with additional tightening to follow.
- The January FOMC meeting marked the final one for Janet Yellen as she passed the Federal Reserve (Fed) Chair seat to Jerome Powell. Powell is expected to remain on Yellen's path, continuing the gradual pace of tightening and balance sheet reduction.
- The Treasury announced plans to borrow \$441 billion in the first quarter, and the amount may rise if Congress agrees on a 2018 budget that expands the limits on defense and domestic spending.

Market Reaction

- Rates continued to rise as rates on Treasuries maturing from three to 10 years rose by 30 basis points (bps) or more, while yields on maturities of one year or less rose by only eight to 15 bps. For the first time in three months, the yield curve steepened.
- The increase in yields pushed fixed income prices down over the month. As a result, the majority of fixed income indices posted negative returns. Higher yields, however, will provide increased earnings potential for new investments and reinvestments.
- Diversification again proved beneficial, as a majority of investment-grade fixed income sectors outperformed similar maturity Treasury securities. Incremental income on corporates and negotiable certificates of deposit (CDs) cushioned the negative market value impact of rising rates.
- The mortgage-backed security (MBS) sector underperformed Treasuries during the month. Investors expect additional supply and reduced Fed buying as it reverses its quantitative easing throughout 2018.

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 is 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

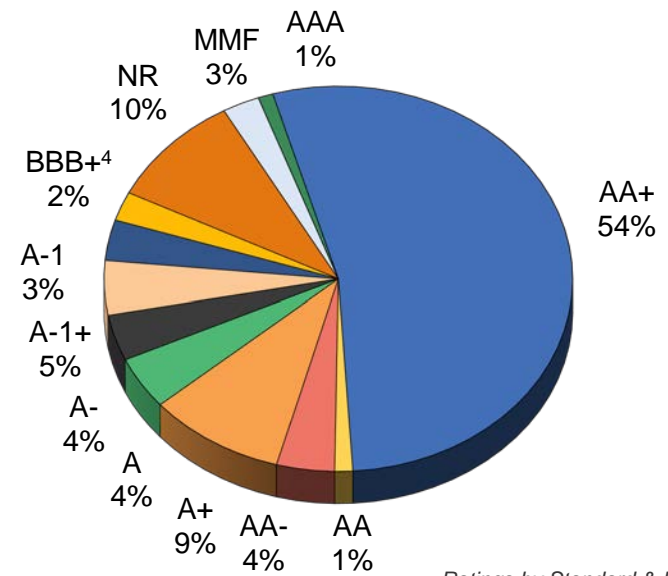
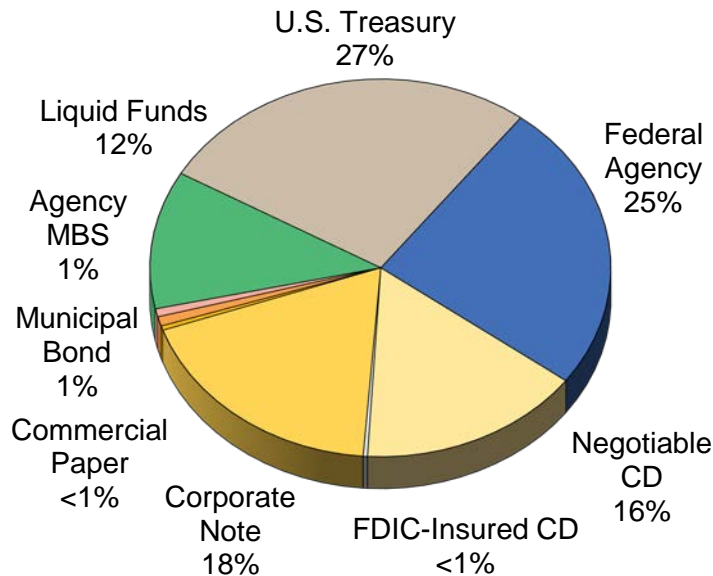
- The maturity distribution of the City's funds (market value plus accrued interest) from one day to the five-year mandated limit.
- The percentage change in maturity distribution month-over-month is shown in the table.
- Demonstrates level of diversification by maturity date. Shows placement of funds 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	January 31, 2018 % of Portfolio ³
U.S. Treasury	\$105,755,000	\$105,844,963	\$104,420,975	27%
Federal Agency	\$96,983,000	\$97,214,513	\$95,921,325	25%
Federal Agency Mortgage-Backed	\$2,671,464	\$2,682,565	\$2,666,523	1%
Negotiable CD	\$60,565,000	\$60,975,901	\$60,728,147	16%
FDIC-Insured CD	\$1,167,647	\$1,168,897	\$1,163,698	<1%
Corporate Notes	\$71,414,000	\$71,805,443	\$71,132,560	18%
Commercial Paper	\$1,443,000	\$1,437,758	\$1,437,757	<1%
Municipal Bond	\$3,175,000	\$3,197,588	\$3,137,359	1%
Liquid Funds²	\$45,675,460	\$45,675,460	\$45,675,460	12%
Total Value	\$388,849,572	\$390,003,088	\$386,283,803	100%

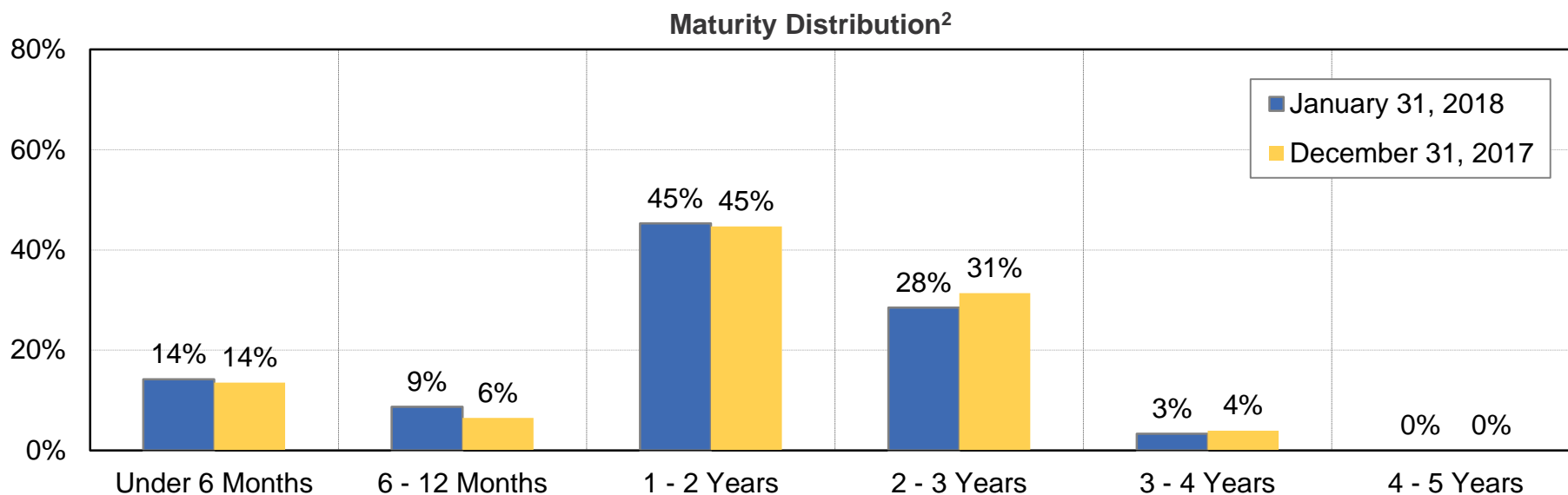


Ratings by Standard & Poor's

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	January 31, 2018 % of Portfolio	December 31, 2017 % of Portfolio
Under 6 Months	\$54,850,857	14%	14%
6–12 Months	\$33,689,188	9%	6%
1–2 Years	\$174,923,973	45%	45%
2–3 Years	\$110,045,912	28%	31%
3–4 Years	\$12,773,874	3%	4%
4–5 Years	\$0	0%	0%
Total Market Value	\$386,283,803	100%	100%

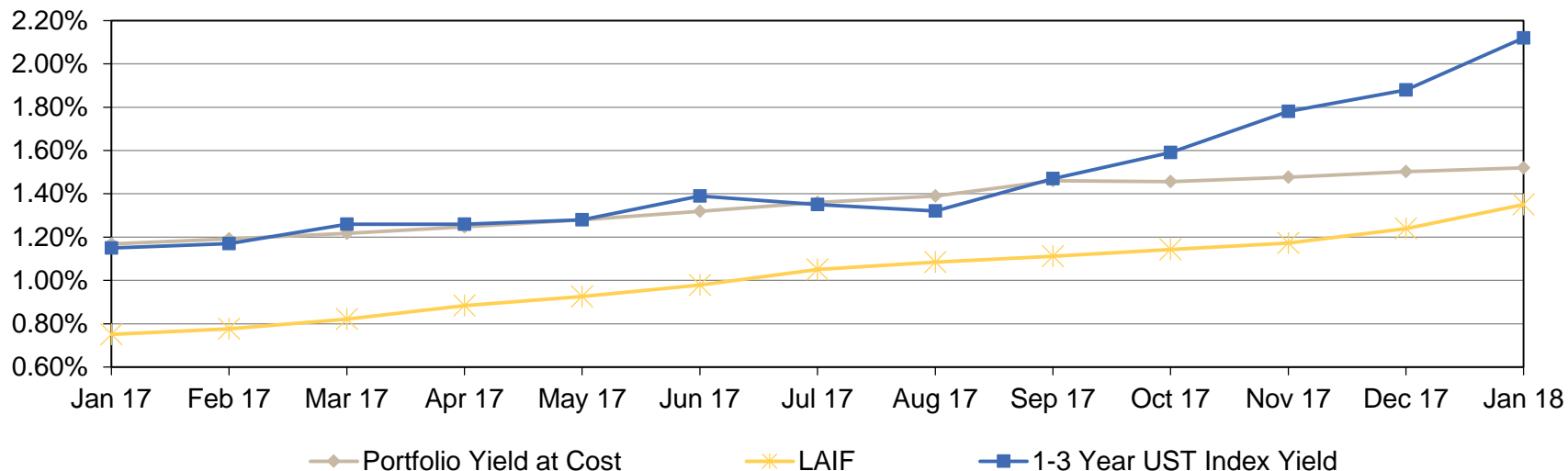


1. Funds held in LAIF are included in the under 6-month range because they can be accessed within one day.
2. Security market values include accrued interest as of trade date. Values may not sum exactly to 100% due to rounding.

Portfolio Yield Summary

Date	Market Value ¹	Portfolio Duration	Portfolio Yield (Cost)	LAIF Yield (Monthly Effective) ²	1-3 Year Treasury Index Yield ²
Jul-17	\$381,000,613	1.61	1.36%	1.05%	1.35%
Aug-17	\$383,250,622	1.66	1.39%	1.08%	1.32%
Sep-17	\$354,966,663	1.78	1.46%	1.11%	1.47%
Oct-17	\$360,515,977	1.69	1.46%	1.14%	1.59%
Nov-17	\$366,368,625	1.65	1.48%	1.17%	1.78%
Dec-17	\$381,472,361	1.56	1.50%	1.24%	1.88%
Jan-18	\$386,283,803	1.51	1.52%	1.35%	2.12%

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 **January 31, 2018**

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										
01/02/18	01/04/18	US TREASURY NOTES DTD 01/31/2016 1.375% 01/31/2021	912828N89	6,900,000.00	(6,762,000.00)	(40,476.56)	(6,802,476.56)			
01/03/18	01/08/18	JOHN DEERE CAPITAL CORP NOTES DTD 01/08/2018 2.350% 01/08/2021	24422ETZ2	610,000.00	(609,682.80)	0.00	(609,682.80)			
Transaction Type Sub-Total				7,510,000.00	(7,371,682.80)	(40,476.56)	(7,412,159.36)			
INTEREST										
01/01/18	01/25/18	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	467,635.28	0.00	604.03	604.03			
01/01/18	01/25/18	FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019	3136AOSW1	418,172.87	0.00	661.44	661.44			
01/01/18	01/25/18	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AQDQ0	1,257,234.31	0.00	1,795.82	1,795.82			
01/01/18	01/25/18	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	770,169.97	0.00	1,405.80	1,405.80			
01/03/18	01/03/18	MONEY MARKET FUND	MONEY0002	0.00	0.00	229.83	229.83			
01/10/18	01/10/18	SVENSKA HANDELSBANKEN NY LT CD DTD 01/12/2017 1.890% 01/10/2019	86958JHB8	5,850,000.00	0.00	56,511.00	56,511.00			
01/15/18	01/15/18	BB&T CORP (CALLABLE) NOTE DTD 12/08/2014 2.450% 01/15/2020	05531FAS2	605,000.00	0.00	7,411.25	7,411.25			
01/16/18	01/16/18	FHLB NOTES DTD 12/08/2016 1.250% 01/16/2019	3130AAE46	5,450,000.00	0.00	34,062.50	34,062.50			
01/17/18	01/17/18	FREDDIE MAC NOTES DTD 01/17/2017 1.500% 01/17/2020	3137EAEES	6,250,000.00	0.00	46,875.00	46,875.00			
01/19/18	01/19/18	FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	7,250,000.00	0.00	31,718.75	31,718.75			
01/20/18	01/20/18	AMERICAN HONDA FINANCE CORP NOTES DTD 07/20/2017 1.950% 07/20/2020	02665WBT7	720,000.00	0.00	7,020.00	7,020.00			
01/23/18	01/23/18	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			
01/27/18	01/27/18	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 **January 31, 2018**

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										
01/30/18	01/30/18	FNMA NOTES DTD 08/01/2017 1.500% 07/30/2020	3135G0T60	6,475,000.00	0.00	48,292.71	48,292.71			
01/31/18	01/31/18	US TREASURY NOTES DTD 01/31/2016 1.375% 01/31/2021	912828N89	6,900,000.00	0.00	47,437.50	47,437.50			
01/31/18	01/31/18	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			
01/31/18	01/31/18	US TREASURY NOTES DTD 01/31/2014 1.500% 01/31/2019	912828B33	1,250,000.00	0.00	9,375.00	9,375.00			
01/31/18	01/31/18	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			
01/31/18	01/31/18	US TREASURY NOTES DTD 01/31/2016 1.375% 01/31/2021	912828N89	575,000.00	0.00	3,953.13	3,953.13			
Transaction Type Sub-Total				65,988,212.43	0.00	478,441.26	478,441.26			
PAYDOWNS										
01/01/18	01/25/18	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	125,802.38	125,802.38	0.00	125,802.38	(1,257.57)	0.00	
01/01/18	01/25/18	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	64,366.77	64,366.77	0.00	64,366.77	(643.64)	0.00	
01/01/18	01/25/18	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AODO0	50,919.60	50,919.60	0.00	50,919.60	(509.90)	0.00	
01/01/18	01/25/18	FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019	3136AQSW1	659.39	659.39	0.00	659.39	(6.59)	0.00	
Transaction Type Sub-Total				241,748.14	241,748.14	0.00	241,748.14	(2,417.70)	0.00	
SELL										
01/02/18	01/04/18	US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018	912828A75	4,075,000.00	4,061,947.27	675.41	4,062,622.68	(47,594.72)	(24,312.08)	FIFO
01/03/18	01/04/18	ROYAL BANK OF CANADA NY CD DTD 03/15/2016 1.700% 03/09/2018	78009NZZ2	2,550,000.00	2,550,076.50	13,847.92	2,563,924.42	76.50	76.50	FIFO
01/03/18	01/08/18	US TREASURY NOTES DTD 01/31/2014 1.500% 01/31/2019	912828B33	600,000.00	597,843.75	3,937.50	601,781.25	(4,359.38)	(2,925.75)	FIFO



Managed Account Security Transactions & Interest

For the Month Ending **January 31, 2018**

CITY OF SANTA ROSA (PFM)

Transaction Type										
Trade	Settle	Security Description	CUSIP	Par	Principal Proceeds	Accrued Interest	Total	Realized G/L Cost	Realized G/L Amort Cost	Sale Method
Transaction Type Sub-Total				7,225,000.00	7,209,867.52	18,460.83	7,228,328.35	(51,877.60)	(27,161.33)	
Managed Account Sub-Total					79,932.86	456,425.53	536,358.39	(54,295.30)	(27,161.33)	
Total Security Transactions					\$79,932.86	\$456,425.53	\$536,358.39	(\$54,295.30)	(\$27,161.33)	



Managed Account Security Transactions & Interest

For the Month Ending **January 31, 2018**

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
BUY										
01/15/18	01/15/18	SUMMIT STATE BANK (FDIC) CD DTD 01/15/2018 1.600% 01/15/2019	RE1064931	245,000.00	(245,000.00)	0.00	(245,000.00)			
Transaction Type Sub-Total				245,000.00	(245,000.00)	0.00	(245,000.00)			
INTEREST										
01/20/18	01/20/18	WELLS FARGO BANK NA FDIC CD DTD 09/20/2016 0.420% 09/20/2018	RE1253765	187,647.00	0.00	66.94	66.94			
Transaction Type Sub-Total				187,647.00	0.00	66.94	66.94			
MATURITY										
01/17/18	01/17/18	SUMMIT STATE BANK CD DTD 01/17/2017 0.600% 01/17/2018	RE1274993	247,729.54	247,729.54	1,486.38	249,215.92	0.00	0.00	
Transaction Type Sub-Total				247,729.54	247,729.54	1,486.38	249,215.92	0.00	0.00	
Managed Account Sub-Total					2,729.54	1,553.32	4,282.86	0.00	0.00	
Total Security Transactions					\$2,729.54	\$1,553.32	\$4,282.86	\$0.00	\$0.00	



Managed Account Security Transactions & Interest

For the Month Ending **January 31, 2018**

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										
01/02/18	01/02/18	MONEY MARKET FUND	MONEY0002	0.00	0.00	1.14	1.14			
Transaction Type Sub-Total				0.00	0.00	1.14	1.14			
Managed Account Sub-Total					0.00	1.14	1.14			
Total Security Transactions					\$0.00	\$1.14	\$1.14			



Managed Account Security Transactions & Interest

For the Month Ending **January 31, 2018**

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										
01/02/18	01/02/18	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.54	0.54			
Transaction Type Sub-Total				0.00	0.00	0.54	0.54			
Managed Account Sub-Total					0.00	0.54	0.54			
Total Security Transactions					\$0.00	\$0.54	\$0.54			



Managed Account Security Transactions & Interest

For the Month Ending **January 31, 2018**

SANTA ROSA WSTWTR REV BDS COM RES

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										
01/02/18	01/02/18	MONEY MARKET FUND	MONEY0002	0.00	0.00	234.82	234.82			
Transaction Type Sub-Total				0.00	0.00	234.82	234.82			
Managed Account Sub-Total					0.00	234.82	234.82			
Total Security Transactions					\$0.00	\$234.82	\$234.82			