



City of
Santa Rosa

City of Santa Rosa
Monthly Investment Report
December 31, 2016

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

- The Federal Open Market Committee (FOMC) raised the federal funds target rate in December by 25 basis points (bps) to a range of 0.50%-0.75%. The FOMC also released updated economic projections and forecasted three rate hikes for 2017.
- The third and final estimate of gross domestic product (GDP) growth for the third quarter showed the U.S. economy expanded at a healthy pace of 3.5%, higher than earlier estimates. The upward revision was a result of increased consumer and government spending and business investment.
- December marked the 75th consecutive month of employment growth, as employers added 156,000 jobs, slightly below the median estimate. More than two million jobs were added in 2016 as the unemployment rate ended the year at 4.7%. Average hourly earnings saw their largest annual increase since 2009, growing 2.9%—an increase from November's 2.5% pace.
- Americans continued to express confidence in the economy as the Conference Board's December reading rose to a more than 15-year high and the University of Michigan's Consumer Sentiment Index reached its highest level since January 2004.

Market Reaction

- Global bond yields rose modestly across the curve in December as the Federal Reserve (Fed) raised rates and provided updated forecasts of future rate hikes.
- Treasury yields rose across all maturities in December. The two-year Treasury yield increased 8 bps to 1.19% while the ten-year yield rose 6 bps to 2.45%. The yield on the five-year Treasury saw the largest increase during the month, rising 9 bps to 1.93%. Yields on all maturities finished the year higher.
- The modest increase in Treasury yields resulted in unchanged to slightly positive performance for most benchmark indexes in December, while longer-maturity Treasury indexes declined modestly for the month. The 1–3 year bond index gained 0.03% for the month, finishing the year up 0.88%. The 1–10 bond year index fell -0.02% to end the year ahead 1.14%.
- As interest rates rose, Federal Agency spreads widened modestly in December from near their tightest levels of the year. As a result, Agencies slightly outperformed Treasuries.
- Investment-grade corporate yield spreads ended the month somewhat narrower and approached its lowest levels of the year. Corporate bonds strongly outperformed comparable maturity Treasuries, with the sector finishing the year with its best relative annual return since 2012.
- Asset-backed securities (ABS) and mortgage-backed securities (MBS) slightly underperformed comparable-maturity Treasuries.
- Yields on money market securities (those with maturities of less than one year) remained elevated as the Fed raised rates.

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 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.

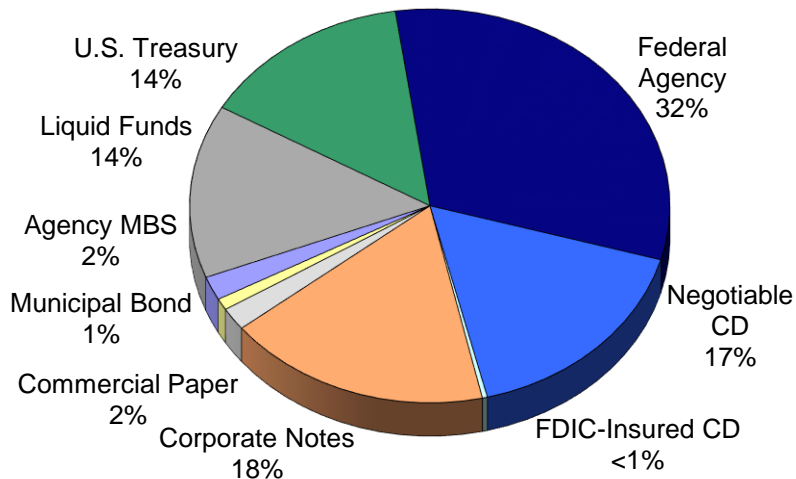
Portfolio Yield Summary

- 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.

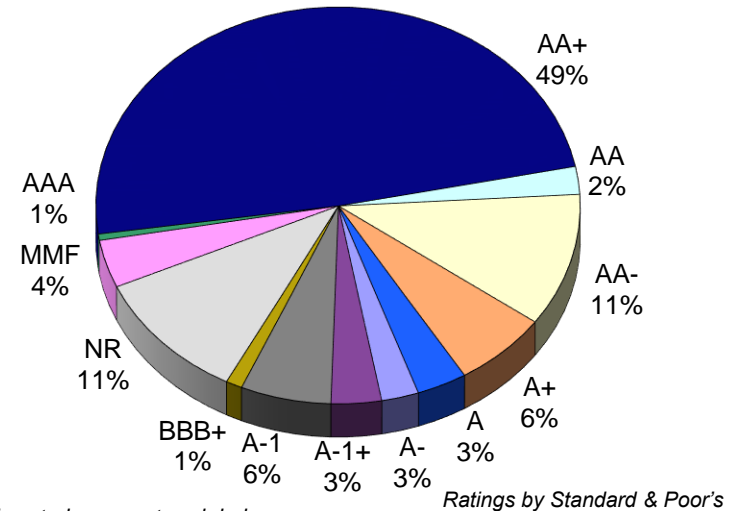
Portfolio Summary and Characteristics

Security Type	Par Value	Amortized Cost Value ¹	Market Value ¹	December 31, 2016 % of Portfolio ³
U.S. Treasury	\$52,280,000	\$52,648,851	\$52,580,257	14%
Federal Agency	\$116,823,000	\$117,025,877	\$116,215,975	32%
Federal Agency Mortgage-Backed	\$7,115,000	\$7,169,994	\$7,131,930	2%
Negotiable CD	\$60,887,647	\$61,146,968	\$61,289,562	17%
FDIC-Insured CD	\$1,235,994	\$1,237,045	\$1,237,002	<1%
Corporate Notes	\$65,149,000	\$65,450,854	\$65,291,443	18%
Commercial Paper	\$6,798,000	\$6,786,302	\$6,789,032	2%
Municipal Bond	\$3,525,000	\$3,547,335	\$3,485,211	1%
Liquid Funds ²	\$52,200,381	\$52,200,381	\$52,200,381	14%
Total Value	\$366,014,022	\$367,213,607	\$366,220,793	100%

Sector Distribution



Credit Quality Distribution



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.

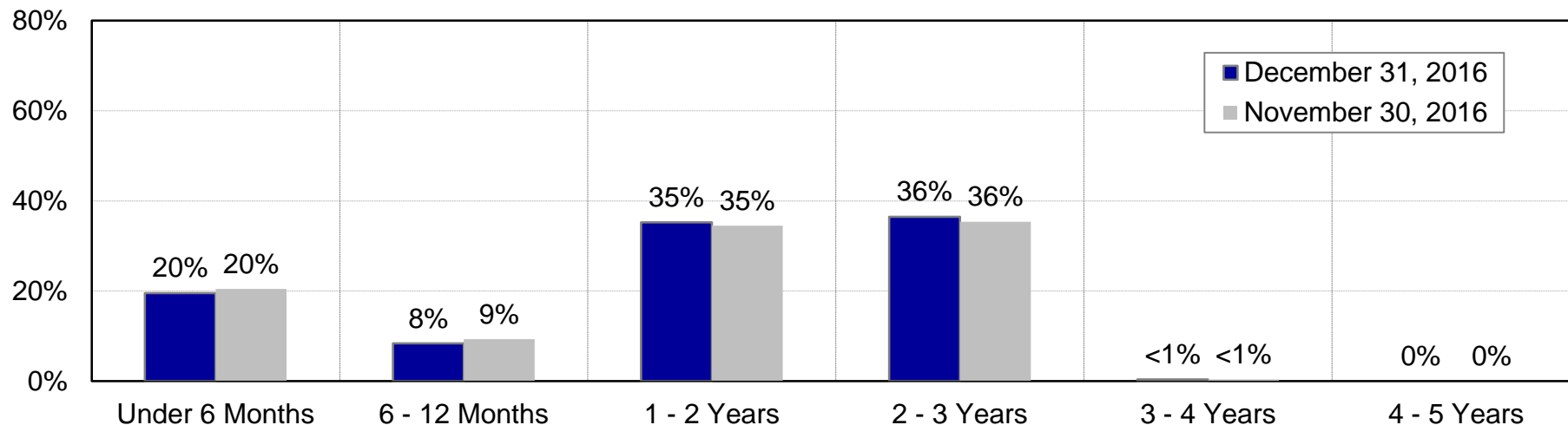
3. Based on market value plus accrued interest.

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	December 31, 2016 % of Portfolio	November 30, 2016 % of Portfolio
Under 6 Months	\$71,572,715	20%	20%
6 - 12 Months	\$30,623,240	8%	9%
1 - 2 Years	\$129,140,316	35%	35%
2 - 3 Years	\$133,542,242	36%	36%
3 - 4 Years	\$1,342,279	<1%	<1%
4 - 5 Years	\$0	0%	0%
Total Market Value	\$366,220,793	100%	100%

Maturity Distribution²

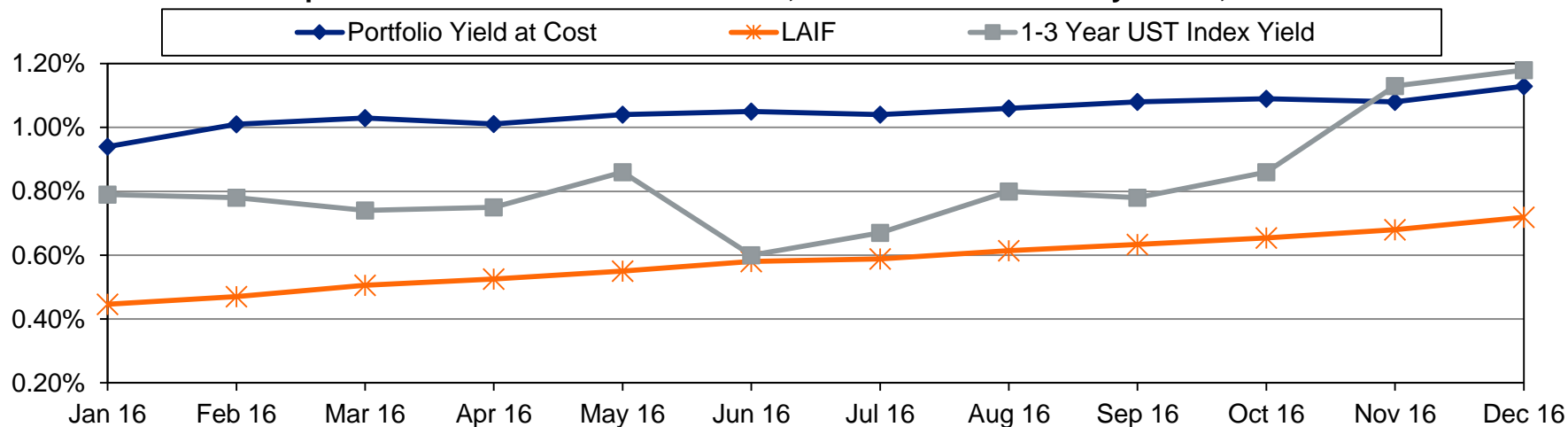


1. Funds held in LAIF are included in the under 6 month range because they can be accessed within one day.
 2. Security market values include accrued interest as of trade date. Values may not round exactly to 100% due to rounding.

Portfolio Yield Summary

Date	Market Value ¹	Portfolio Duration	Portfolio Yield (Cost)	LAIF Yield (Monthly Effective) ²	1-3 Year Treasury Index Yield ²
Jun-16	\$376,821,935	1.51	1.05%	0.58%	0.60%
Jul-16	\$365,692,556	1.56	1.04%	0.59%	0.67%
Aug-16	\$361,079,176	1.63	1.06%	0.61%	0.80%
Sep-16	\$348,357,010	1.64	1.08%	0.63%	0.78%
Oct-16	\$347,818,009	1.61	1.09%	0.65%	0.86%
Nov-16	\$353,779,162	1.53	1.08%	0.68%	1.13%
Dec-16	\$366,220,793	1.52	1.13%	0.72%	1.18%

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 **December 31, 2016**

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										
12/01/16	12/05/16	CANADIAN IMPERIAL BANK NY CD DTD 12/05/2016 1.760% 11/30/2018	13606A5Z7	5,800,000.00	(5,795,476.00)	0.00	(5,795,476.00)			
12/01/16	12/05/16	NORDEA BANK FINLAND NY CD DTD 12/05/2016 1.760% 11/30/2018	65558LWA6	5,800,000.00	(5,800,000.00)	0.00	(5,800,000.00)			
12/01/16	12/05/16	US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019	912828G61	14,500,000.00	(14,522,656.25)	(2,987.64)	(14,525,643.89)			
12/07/16	12/08/16	FHLB NOTES DTD 12/08/2016 1.250% 01/16/2019	3130AAE46	5,800,000.00	(5,799,768.00)	0.00	(5,799,768.00)			
Transaction Type Sub-Total				31,900,000.00	(31,917,900.25)	(2,987.64)	(31,920,887.89)			
INTEREST										
12/01/16	12/01/16	MONEY MARKET FUND	MONEY0002	0.00	0.00	3.52	3.52			
12/01/16	12/25/16	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	2,150,000.00	0.00	3,198.13	3,198.13			
12/01/16	12/25/16	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AODO0	2,525,000.00	0.00	3,463.46	3,463.46			
12/01/16	12/25/16	FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019	3136AQSW1	1,160,000.00	0.00	1,834.81	1,834.81			
12/01/16	12/25/16	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	1,280,000.00	0.00	1,653.33	1,653.33			
12/03/16	12/03/16	PFIZER INC CORP NOTES DTD 06/03/2016 1.450% 06/03/2019	717081DU4	2,900,000.00	0.00	21,025.00	21,025.00			
12/05/16	12/05/16	BANK OF AMERICA BANK NOTES DTD 06/05/2015 1.750% 06/05/2018	06050TMC3	2,500,000.00	0.00	21,875.00	21,875.00			
12/07/16	12/07/16	CITIGROUP INC CORP NOTES DTD 06/09/2016 2.050% 06/07/2019	172967KS9	1,120,000.00	0.00	11,352.44	11,352.44			
12/11/16	12/11/16	WELLS FARGO & COMPANY NOTES DTD 12/10/2007 5.625% 12/11/2017	949746NX5	810,000.00	0.00	22,781.25	22,781.25			
12/28/16	12/28/16	NORDEA BANK FINLAND NY CD DTD 05/29/2015 1.150% 05/26/2017	65558LFA5	0.00	0.00	351.41	351.41			
12/29/16	12/29/16	FEDERAL HOME LOAN BANKS AGCY DTD 05/27/2016 0.875% 06/29/2018	3130A8BD4	1,950,000.00	0.00	8,531.25	8,531.25			
12/29/16	12/29/16	FEDERAL HOME LOAN BANKS AGCY DTD 05/27/2016 0.875% 06/29/2018	3130A8BD4	4,715,000.00	0.00	20,628.13	20,628.13			



Managed Account Security Transactions & Interest

For the Month Ending **December 31, 2016**

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										
12/31/16	12/31/16	US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018	912828A75	13,000,000.00	0.00	97,500.00	97,500.00			
Transaction Type Sub-Total				34,110,000.00	0.00	214,197.73	214,197.73			
SELL										
12/01/16	12/05/16	US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	4,380,000.00	4,375,551.56	13,226.29	4,388,777.85	(16,425.01)	(11,413.38)	SPEC LOT
12/01/16	12/05/16	NORDEA BANK FINLAND NY CD DTD 05/29/2015 1.150% 05/26/2017	65558LFA5	5,500,000.00	5,501,123.98	1,229.86	5,502,353.84	1,123.98	1,123.98	SPEC LOT
12/01/16	12/05/16	CANADIAN IMPERIAL BANK NY YCD DTD 04/10/2015 1.010% 04/06/2017	13606JYY9	5,500,000.00	5,499,065.00	9,104.03	5,508,169.03	(935.00)	(935.00)	SPEC LOT
12/01/16	12/05/16	FNMA NOTE DTD 03/04/2016 0.875% 03/28/2018	3135G0J61	1,975,000.00	1,970,339.00	3,216.23	1,973,555.23	(711.00)	(2,139.62)	SPEC LOT
12/01/16	12/05/16	FHLB GLOBAL NOTE DTD 08/26/2016 0.875% 10/01/2018	3130A9AE1	6,000,000.00	5,967,060.00	9,333.33	5,976,393.33	(28,860.00)	(29,383.02)	SPEC LOT
12/01/16	12/05/16	HSBC USA INC NOTES DTD 11/13/2014 1.500% 11/13/2017	40428HPL0	2,000,000.00	1,999,100.00	1,833.33	2,000,933.33	(540.00)	(785.62)	SPEC LOT
12/05/16	12/05/16	US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	35,000.00	35,084.77	6.01	35,090.78	13.68	38.25	SPEC LOT
12/07/16	12/08/16	US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	5,785,000.00	5,801,496.29	1,589.29	5,803,085.58	4,745.51	8,838.86	FIFO
Transaction Type Sub-Total				31,175,000.00	31,148,820.60	39,538.37	31,188,358.97	(41,587.84)	(34,655.55)	
Managed Account Sub-Total					(769,079.65)	250,748.46	(518,331.19)	(41,587.84)	(34,655.55)	
Total Security Transactions					(769,079.65)	250,748.46	(518,331.19)	(41,587.84)	(34,655.55)	



Managed Account Security Transactions & Interest

For the Month Ending **December 31, 2016**

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										
12/20/16	12/20/16	EXCHANGE BANK CD DTD 12/20/2016 0.360% 12/20/2017	RE1274951	247,133.41	(247,133.41)	0.00	(247,133.41)			
12/20/16	12/20/16	FIRST COMMUNITY BANK OF AMERICA CD DTD 12/20/2016 0.360% 12/20/2017	RE1274985	247,214.35	(247,214.35)	0.00	(247,214.35)			
12/23/16	12/23/16	SONOMA COUNTY GRANGE CREDIT UNION CD DTD 12/23/2016 0.360% 12/23/2017	RE1274969	247,827.33	(247,827.33)	0.00	(247,827.33)			
12/23/16	12/23/16	COMMUNITY FIRST CREDIT UNION CD DTD 12/23/2016 0.360% 12/23/2017	RE1274977	247,155.46	(247,155.46)	0.00	(247,155.46)			
Transaction Type Sub-Total				989,330.55	(989,330.55)	0.00	(989,330.55)			
INTEREST										
12/20/16	12/20/16	WELLS FARGO BANK NA LT 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			
MATURITY										
12/20/16	12/20/16	EXCHANGE BANK CD DTD 12/20/2015 0.360% 12/20/2016	RE1236752	246,269.99	246,269.99	889.00	247,158.99	0.00	0.00	
12/20/16	12/20/16	FIRST COMMUNITY BANK CD DTD 12/20/2015 0.360% 12/20/2016	RE1236786	246,297.55	246,297.55	889.10	247,186.65	0.00	0.00	
12/23/16	12/23/16	COMMUNITY FIRST CREDIT UNION CD DTD 12/23/2015 0.360% 12/23/2016	RE1236778	246,202.44	246,202.44	886.33	247,088.77	0.00	0.00	
12/23/16	12/23/16	SONOMA COUNTY GRANGE CREDIT UNION CD DTD 12/23/2015 0.360% 12/23/2016	RE1236760	246,712.17	246,712.17	890.60	247,602.77	0.00	0.00	
Transaction Type Sub-Total				985,482.15	985,482.15	3,555.03	989,037.18	0.00	0.00	
Managed Account Sub-Total					(3,848.40)	3,619.81	(228.59)	0.00	0.00	
Total Security Transactions					(\$3,848.40)	\$3,619.81	(\$228.59)	\$0.00	\$0.00	



Managed Account Security Transactions & Interest

For the Month Ending **December 31, 2016**

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										
12/01/16	12/01/16	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.25	0.25			
Transaction Type Sub-Total				0.00	0.00	0.25	0.25			
Managed Account Sub-Total					0.00	0.25	0.25			
Total Security Transactions					\$0.00	\$0.25	\$0.25			



Managed Account Security Transactions & Interest

For the Month Ending **December 31, 2016**

SANTA ROSA SKYHAWK 2011A RESERVE FUND

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										
12/01/16	12/01/16	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.16	0.16			
Transaction Type Sub-Total				0.00	0.00	0.16	0.16			
Managed Account Sub-Total					0.00	0.16	0.16			
Total Security Transactions					\$0.00	\$0.16	\$0.16			



Managed Account Security Transactions & Interest

For the Month Ending **December 31, 2016**

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
INTEREST										
12/01/16	12/01/16	MONEY MARKET FUND	MONEY0002	0.00	0.00	21.67	21.67			
12/31/16	12/31/16	US TREASURY NOTES DTD 01/03/2012 0.875% 12/31/2016	912828RX0	500,000.00	0.00	2,187.50	2,187.50			
Transaction Type Sub-Total				500,000.00	0.00	2,209.17	2,209.17			
MATURITY										
12/31/16	12/31/16	US TREASURY NOTES DTD 01/03/2012 0.875% 12/31/2016	912828RX0	500,000.00	500,000.00	0.00	500,000.00	(3,750.00)	0.00	
Transaction Type Sub-Total				500,000.00	500,000.00	0.00	500,000.00	(3,750.00)	0.00	
Managed Account Sub-Total					500,000.00	2,209.17	502,209.17	(3,750.00)	0.00	
Total Security Transactions					\$500,000.00	\$2,209.17	\$502,209.17	(\$3,750.00)	\$0.00	