

City of Santa Rosa

Monthly Investment Report

May 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

- Global economic and market prospects have improved, while the outlook for the U.S. economy is less certain. The improvement gained some momentum from Emmanuel Macron's victory in the French presidential election as it calmed populism fears in Europe. Domestic markets are focused on whether the Trump administration can put forth workable policies that promote economic growth.
- U.S. real gross domestic product (GDP) grew 1.2% in the first quarter of 2017, according to the second estimate released by the Bureau of Economic Analysis. The upward revision from an initial estimate of 0.7% was due to increases in personal consumption and business investment, which accelerated the most since 2012. Inventories and government spending remained a detractor from GDP.
- The economy failed to reach the consensus estimate of 182,000 jobs, adding only 138,000 in May. In addition, the prior two months' figures were revised down by 66,000. The unemployment rate dropped to 4.3%, the lowest since 2001, primarily due to a decline in the labor force participation rate. Average hourly earnings also missed the mark, increasing only 2.5% year-over-year (YOY).

Market Reaction

- Domestic bond markets quieted after an active first quarter. Volatility was low and risk premiums narrowed. The yield curve flattened as falling inflation expectations and a less optimistic view of U.S. growth prospects pulled down long-term Treasury yields.
- The two-year Treasury yield ended the month slightly higher at 1.28%, while the yield on the 10-year Treasury fell to 2.20%. Treasury benchmarks posted modest positive returns in May. This five month positive streak is the first in over a decade.
- Federal agency yield spreads tightened further as demand continued to outpace limited supply. Value was limited and focused in two- and three-year new issues. Agency index returns slightly exceeded those of comparable-maturity Treasury indices.
- Corporate yield spreads tightened as well, reaching lows last seen in 2014, as geopolitical fears abated and corporate earnings came in stronger than expected. As a result, the sector continued to outperform relative to comparable-maturity Treasuries.
- Mortgage-backed securities (MBS) produced higher returns than Treasury's, with lower coupon issues and structured securities such as commercial mortgage-backed securities (CMBS) leading the pack in the sector.
- Commercial paper (CP) and bank certificates of deposit (CD) yield spreads continued to tighten as the impact of money market reform has now nearly completely faded.

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

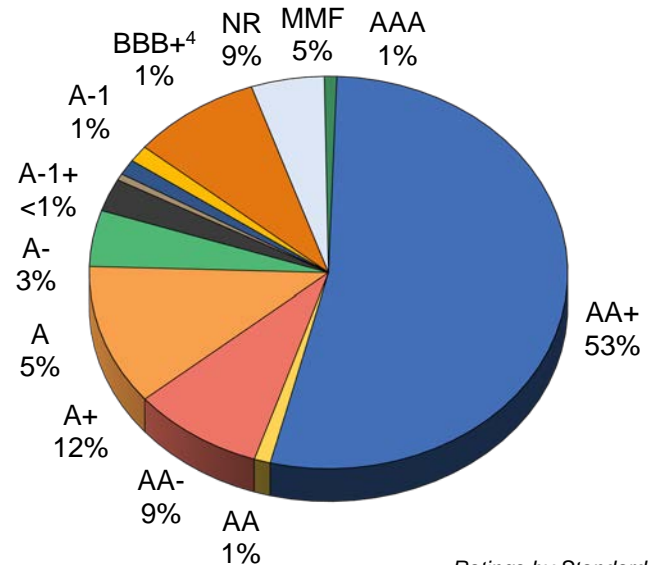
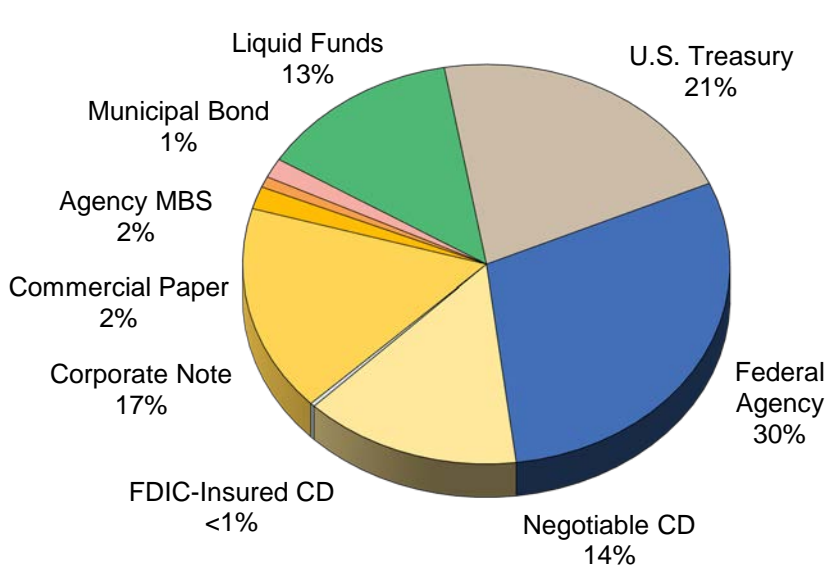
- The maturity distribution of the City's funds (market value plus accrued interest) from one day to the five-year mandated limit.
- The change in by percentage in maturity distribution month-over-month is shown in the table.
- Demonstrates level of diversification by maturity date. Shows placement of 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	May 31, 2017 % of Portfolio ³
U.S. Treasury	\$83,930,000	\$84,263,870	\$84,287,703	21%
Federal Agency	\$118,728,000	\$118,886,262	\$118,263,564	30%
Federal Agency Mortgage-Backed	\$6,311,407	\$6,349,967	\$6,325,495	2%
Negotiable CD	\$57,250,000	\$57,453,904	\$57,598,252	14%
FDIC-Insured CD	\$1,176,880	\$1,178,647	\$1,174,733	<1%
Corporate Notes	\$66,139,000	\$66,477,653	\$66,543,582	17%
Commercial Paper	\$7,305,000	\$7,287,664	\$7,289,011	2%
Municipal Bond	\$3,525,000	\$3,542,863	\$3,495,569	1%
Liquid Funds²	\$53,574,875	\$53,574,875	\$53,574,875	13%
Total Value	\$397,940,162	\$399,015,705	\$398,552,784	100%

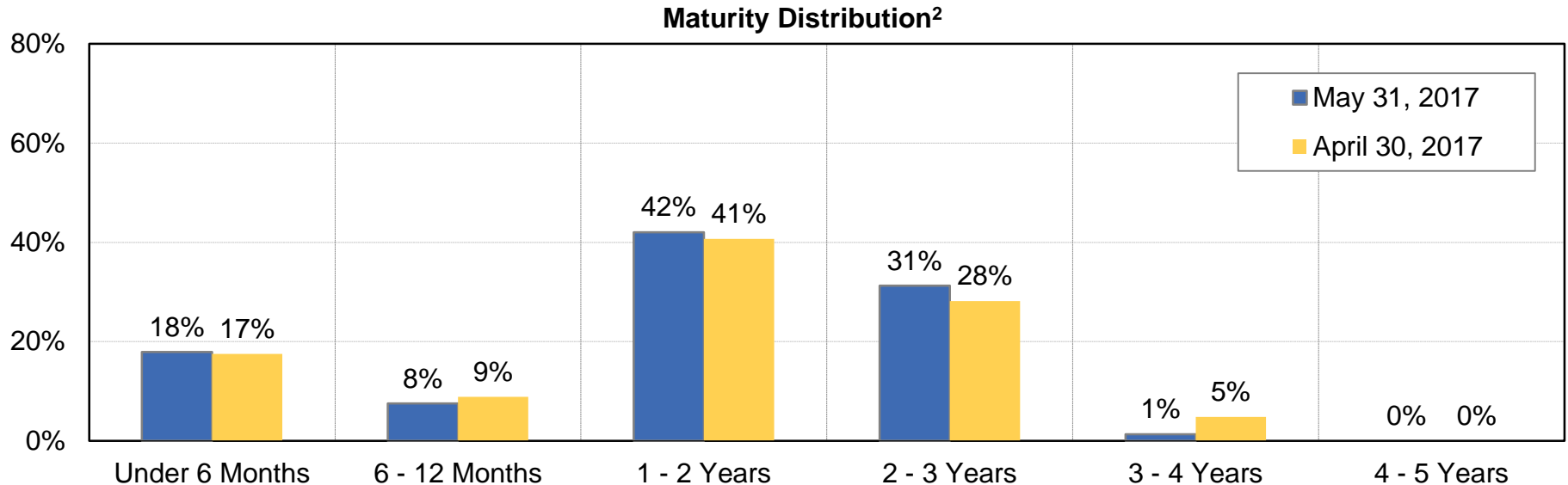


Ratings by Standard & Poor's

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	May 31, 2017 % of Portfolio	April 30, 2017 % of Portfolio
Under 6 Months	\$71,373,692	18%	17%
6 - 12 Months	\$29,935,328	8%	9%
1 - 2 Years	\$167,442,971	42%	41%
2 - 3 Years	\$124,578,462	31%	28%
3 - 4 Years	\$5,222,331	1%	5%
4 - 5 Years	\$0	0%	0%
Total Market Value	\$398,552,784	100%	100%

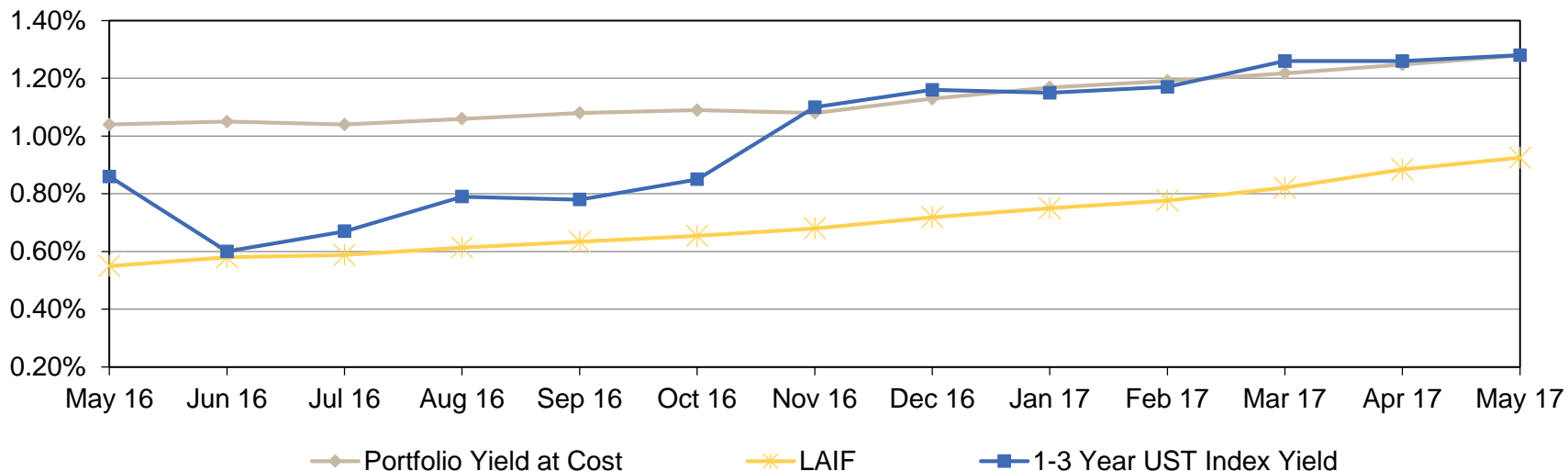


1. Funds held in LAIF are included in the under 6 month range because they can be accessed within one day.
2. Security market values include accrued interest as of trade date. Values may not sum exactly to 100% due to rounding.

Portfolio Yield Summary

Date	Market Value ¹	Portfolio Duration	Portfolio Yield (Cost)	LAIF Yield (Monthly Effective) ²	1-3 Year Treasury Index Yield ²
Nov-16	\$353,779,162	1.53	1.08%	0.68%	1.10%
Dec-16	\$366,220,793	1.52	1.13%	0.72%	1.16%
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	\$401,129,256	1.51	1.25%	0.88%	1.26%
May-17	\$398,552,784	1.50	1.28%	0.93%	1.28%

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 **May 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										
04/27/17	05/02/17	PEPSICO INC DTD 05/02/2017 1.550% 05/02/2019	713448DR6	1,550,000.00	(1,548,837.50)	0.00	(1,548,837.50)			
05/02/17	05/02/17	FANNIE MAE GLOBAL NOTES DTD 10/25/2016 1.000% 10/24/2019	3135G0R39	5,000,000.00	(4,944,100.00)	(1,111.11)	(4,945,211.11)			
05/02/17	05/05/17	UNILEVER CAPITAL CORP BONDS DTD 05/05/2017 1.800% 05/05/2020	904764AV9	750,000.00	(747,607.50)	0.00	(747,607.50)			
05/03/17	05/04/17	SUMITOMO MITSUI BANK NY CD DTD 05/04/2017 2.050% 05/03/2019	86563YVNO	6,500,000.00	(6,500,000.00)	0.00	(6,500,000.00)			
05/04/17	05/04/17	US TREASURY NOTES DTD 09/30/2011 1.375% 09/30/2018	912828RH5	5,000,000.00	(5,009,179.69)	(6,386.61)	(5,015,566.30)			
05/08/17	05/11/17	INTEL CORP NOTES DTD 05/11/2017 1.850% 05/11/2020	458140AZ3	1,650,000.00	(1,649,373.00)	0.00	(1,649,373.00)			
05/24/17	06/05/17	HOME DEPOT INC CORP NOTES DTD 06/05/2017 1.800% 06/05/2020	437076B04	1,530,000.00	(1,529,112.60)	0.00	(1,529,112.60)			
Transaction Type Sub-Total				21,980,000.00	(21,928,210.29)	(7,497.72)	(21,935,708.01)			
INTEREST										
05/01/17	05/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	646.57	646.57			
05/01/17	05/01/17	TEXAS INSTRUMENTS CORP NOTE DTD 05/08/2013 1.000% 05/01/2018	882508AV6	3,935,000.00	0.00	19,675.00	19,675.00			
05/01/17	05/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	2,150,000.00	0.00	4,527.39	4,527.39			
05/01/17	05/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	1,259,955.43	0.00	1,709.95	1,709.95			
05/01/17	05/25/17	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			
05/01/17	05/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AQDQ0	2,486,047.28	0.00	4,780.56	4,780.56			
05/15/17	05/15/17	GLAXOSMITHKLINE CAP INC NOTES DTD 05/13/2008 5.650% 05/15/2018	377372AD9	1,000,000.00	0.00	28,250.00	28,250.00			
05/17/17	05/17/17	IBM CORP NOTES DTD 02/19/2016 1.800% 05/17/2019	459200JE2	5,750,000.00	0.00	51,750.00	51,750.00			



Managed Account Security Transactions & Interest

For the Month Ending **May 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										
05/22/17	05/22/17	BANK OF NEW YORK MELLON CORP (CALLABLE) DTD 05/29/2015 1.600% 05/22/2018	06406HDB2	5,500,000.00	0.00	44,000.00	44,000.00			
05/30/17	05/30/17	CANADIAN IMPERIAL BANK NY CD DTD 12/05/2016 1.760% 11/30/2018	13606A5Z7	5,800,000.00	0.00	45,989.99	45,989.99			
05/30/17	05/30/17	NORDEA BANK FINLAND NY CD DTD 12/05/2016 1.760% 11/30/2018	65558LWA6	5,800,000.00	0.00	49,905.78	49,905.78			
05/31/17	05/31/17	US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	3,180,000.00	0.00	19,875.00	19,875.00			
05/31/17	05/31/17	US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	5,000,000.00	0.00	31,250.00	31,250.00			
05/31/17	05/31/17	US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019	912828G61	14,500,000.00	0.00	108,750.00	108,750.00			
Transaction Type Sub-Total				57,521,002.71	0.00	412,945.05	412,945.05			
PAYDOWNS										
05/01/17	05/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	566,150.47	566,150.47	0.00	566,150.47	(5,661.22)	0.00	
05/01/17	05/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	25,585.28	25,585.28	0.00	25,585.28	(255.76)	0.00	
05/01/17	05/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AODO0	152,860.37	152,860.37	0.00	152,860.37	(1,530.73)	0.00	
Transaction Type Sub-Total				744,596.12	744,596.12	0.00	744,596.12	(7,447.71)	0.00	
SELL										
04/27/17	05/02/17	US TREASURY NOTES DTD 01/31/2014 1.500% 01/31/2019	912828B33	1,400,000.00	1,406,507.81	5,279.01	1,411,786.82	1,367.19	3,566.90	FIFO
05/02/17	05/05/17	AMERICAN HONDA FINANCE CORP NOTES DTD 03/13/2015 1.500% 03/13/2018	02665WAT8	750,000.00	750,750.00	1,625.00	752,375.00	1,755.00	1,041.22	FIFO
05/03/17	05/04/17	HSBC BANK USA NA FLOATING CERT DEPOS DTD 11/18/2015 1.769% 11/17/2017	40428AR41	5,500,000.00	5,515,620.00	18,946.78	5,534,566.78	15,620.00	15,620.00	FIFO



Managed Account Security Transactions & Interest

For the Month Ending **May 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
SELL										
05/03/17	05/04/17	TOYOTA MOTOR CREDIT CORP NOTE DTD 01/12/2015 1.450% 01/12/2018	89236TCA1	1,000,000.00	1,001,070.00	4,511.11	1,005,581.11	2,440.00	1,389.83	FIFO
05/08/17	05/11/17	TOYOTA MOTOR CREDIT CORP NOTE DTD 01/12/2015 1.450% 01/12/2018	89236TCA1	230,000.00	230,055.20	1,102.40	231,157.60	370.30	126.70	FIFO
05/08/17	05/11/17	AMERICAN HONDA FINANCE CORP NOTES DTD 03/13/2015 1.500% 03/13/2018	02665WAT8	1,400,000.00	1,401,218.00	3,383.33	1,404,601.33	3,094.00	1,751.08	FIFO
05/31/17	06/05/17	AMERICAN HONDA FINANCE CORP NOTES DTD 03/13/2015 1.500% 03/13/2018	02665WAT8	610,000.00	610,689.30	2,084.17	612,773.47	1,506.70	903.20	FIFO
Transaction Type Sub-Total				10,890,000.00	10,915,910.31	36,931.80	10,952,842.11	26,153.19	24,398.93	
Managed Account Sub-Total					(10,267,703.86)	442,379.13	(9,825,324.73)	18,705.48	24,398.93	
Total Security Transactions					(\$10,267,703.86)	\$442,379.13	(\$9,825,324.73)	\$18,705.48	\$24,398.93	

Bolded items are forward settling trades.



Managed Account Security Transactions & Interest

For the Month Ending **May 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										
05/20/17	05/20/17	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 **May 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										
05/01/17	05/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.76	0.76			
Transaction Type Sub-Total				0.00	0.00	0.76	0.76			
Managed Account Sub-Total					0.00	0.76	0.76			
Total Security Transactions					\$0.00	\$0.76	\$0.76			



Managed Account Security Transactions & Interest

For the Month Ending **May 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										
05/01/17	05/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.39	0.39			
Transaction Type Sub-Total				0.00	0.00	0.39	0.39			
Managed Account Sub-Total					0.00	0.39	0.39			
Total Security Transactions					\$0.00	\$0.39	\$0.39			



Managed Account Security Transactions & Interest

For the Month Ending **May 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										
05/01/17	05/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.74	0.74			
Transaction Type Sub-Total				0.00	0.00	0.74	0.74			
Managed Account Sub-Total					0.00	0.74	0.74			
Total Security Transactions					\$0.00	\$0.74	\$0.74			



Managed Account Security Transactions & Interest

For the Month Ending **May 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										
05/02/17	05/03/17	JP MORGAN SECURITIES LLC COMM PAPER DTD 12/08/2016 0.000% 09/01/2017	46640PW17	500,000.00	(498,084.17)	0.00	(498,084.17)			
Transaction Type Sub-Total				500,000.00	(498,084.17)	0.00	(498,084.17)			
INTEREST										
05/01/17	05/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	58.27	58.27			
Transaction Type Sub-Total				0.00	0.00	58.27	58.27			
MATURITY										
05/03/17	05/03/17	JP MORGAN SECURITIES LLC COMM PAPER DTD 01/03/2017 0.000% 05/03/2017	46640PS38	500,000.00	500,000.00	0.00	500,000.00	1,833.33	0.00	
Transaction Type Sub-Total				500,000.00	500,000.00	0.00	500,000.00	1,833.33	0.00	
Managed Account Sub-Total					1,915.83	58.27	1,974.10	1,833.33	0.00	
Total Security Transactions					\$1,915.83	\$58.27	\$1,974.10	\$1,833.33	\$0.00	



Managed Account Security Transactions & Interest

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

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										
05/01/17	05/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.74	0.74			
Transaction Type Sub-Total				0.00	0.00	0.74	0.74			
Managed Account Sub-Total					0.00	0.74	0.74			
Total Security Transactions					\$0.00	\$0.74	\$0.74			