

City of Santa Rosa

Monthly Investment Report

June 30, 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 momentum continues to shift as policy disappointments and weak economic activity in the U.S., such as readings on factory orders, housing starts, retail sales and inflation, are balanced by improvements in economic results in other markets.
- Inflation has been surprisingly muted in the U.S. with some policy makers suggesting that the long-held Federal Reserve (Fed) policy objective of 2.0% inflation could be further from realization.
- The Federal Open Market Committee (FOMC) raised the federal funds rate by 0.25% to a new target range of 1.0 to 1.25% at its June meeting. Although the Fed's "dot plot" points to one more hike in 2017, the markets only expect a 50% chance of a hike by year end.
- U.S. real gross domestic product (GDP) grew at an annual rate of 1.4% in the first quarter, reflecting upward revisions to personal consumption and exports, while inventories and government spending reduced GDP. Second quarter growth is expected to improve.
- The U.S. economy added 222,000 jobs in June, above expectations and boosted by the biggest jump in government jobs in almost a year. The unemployment rate edged up to 4.4% while average hourly earnings increased a disappointing 2.5% year-over-year (YOY).
- The Consumer Price Index (CPI), declined for a third straight month, falling to 1.9% YOY in May. The decline in headline inflation is due to falling oil prices, while core inflation reflected lower prices for telecommunication, autos, apparel, and alcoholic beverages.

Market Reaction

- Weaker economic data and low inflation kept interest rates in check during June. Despite a quarter-point Fed rate increase, U.S. Treasury yields rose only modestly during the month.
- The yields on two-, 10-, and 30-year Treasury notes ended the month at 1.38%, 2.30%, and 2.84%, respectively.
- Returns on most fixed-income indices were negative for the month, with the exception of corporates, asset-backed securities (ABS), and securities with maturities greater than 15 years.
- The broad mortgage-backed securities (MBS) sector underperformed Treasuries as price declines offset positive income returns.
- After offering exceptional investment opportunities in late 2016 and early 2017, yield spreads on commercial paper (CP), and bank certificates of deposit (CDs) remained near their tightest levels since the Fed began raising rates in late 2015.

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

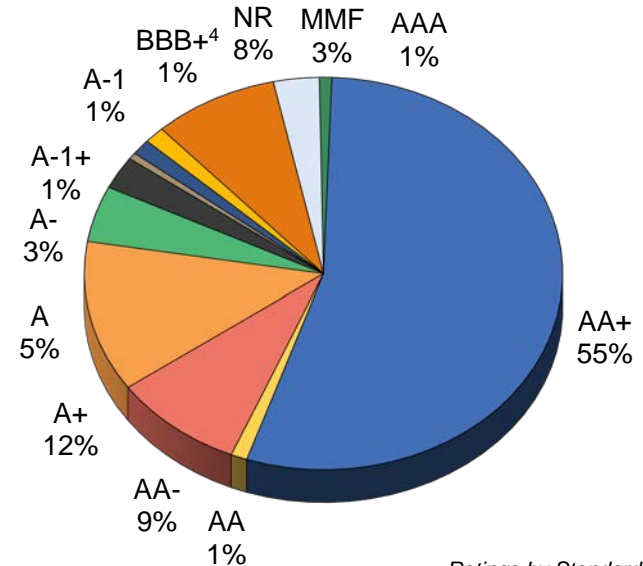
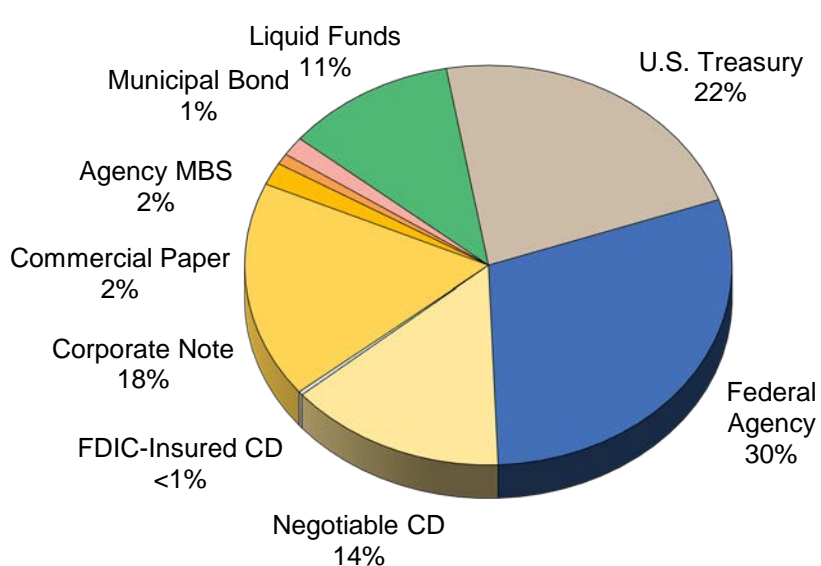
- The maturity distribution of the City's funds (market value plus accrued interest) from one day to the five-year mandated limit.
- The change in by percentage in maturity distribution month-over-month is shown in the table.
- Demonstrates level of diversification by maturity date. Shows placement of 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	June 30, 2017 % of Portfolio ³
U.S. Treasury	\$89,255,000	\$89,579,934	\$89,417,768	22%
Federal Agency	\$118,728,000	\$118,988,039	\$118,211,898	30%
Federal Agency Mortgage-Backed	\$6,160,026	\$6,195,887	\$6,169,333	2%
Negotiable CD	\$57,250,000	\$57,538,543	\$57,637,705	14%
FDIC-Insured CD	\$1,176,880	\$1,178,987	\$1,172,244	<1%
Corporate Notes	\$69,389,000	\$69,738,411	\$69,724,633	18%
Commercial Paper	\$7,305,000	\$7,294,675	\$7,294,455	2%
Municipal Bond	\$3,525,000	\$3,546,432	\$3,491,798	1%
Liquid Funds²	\$45,041,096	\$45,041,096	\$45,041,096	11%
Total Value	\$397,830,002	\$399,102,004	\$398,160,931	100%

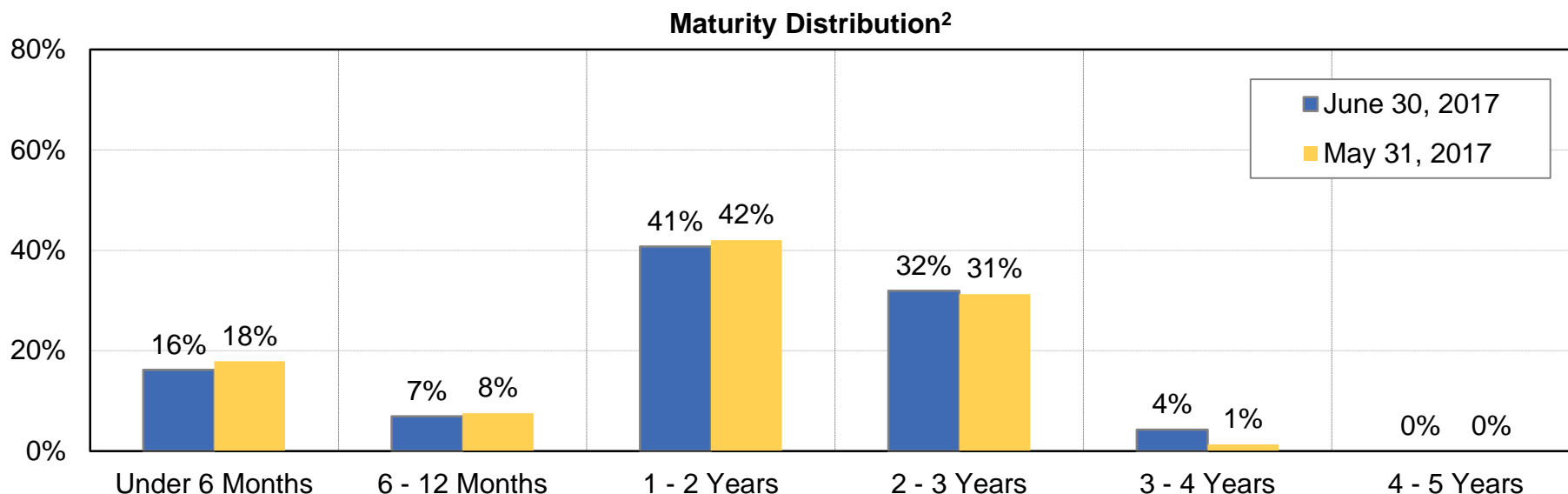


Ratings by Standard & Poor's

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	June 30, 2017 % of Portfolio	May 31, 2017 % of Portfolio
Under 6 Months	\$64,419,037	16%	18%
6 - 12 Months	\$27,562,684	7%	8%
1 - 2 Years	\$162,237,025	41%	42%
2 - 3 Years	\$127,067,539	32%	31%
3 - 4 Years	\$16,874,646	4%	1%
4 - 5 Years	\$0	0%	0%
Total Market Value	\$398,160,931	100%	100%

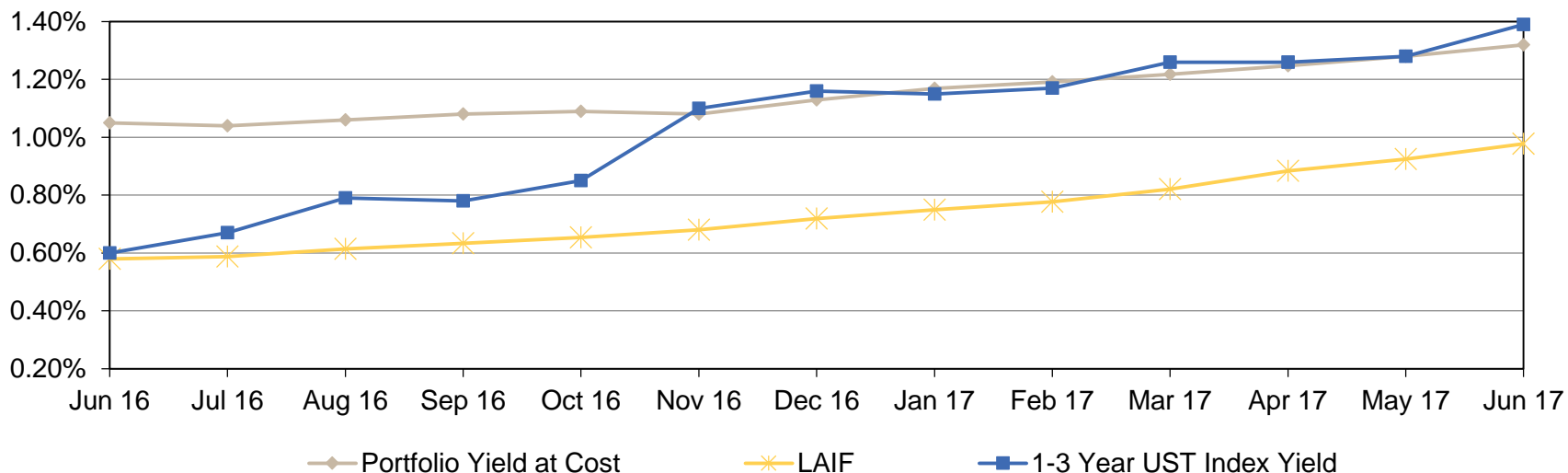


1. Funds held in LAIF are included in the under 6 month range because they can be accessed within one day.
2. Security market values include accrued interest as of trade date. Values may not sum exactly to 100% due to rounding.

Portfolio Yield Summary

Date	Market Value ¹	Portfolio Duration	Portfolio Yield (Cost)	LAIF Yield (Monthly Effective) ²	1-3 Year Treasury Index Yield ²
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	\$409,271,183	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%

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 **June 30, 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										
05/24/17	06/05/17	HOME DEPOT INC CORP NOTES DTD 06/05/2017 1.800% 06/05/2020	437076BQ4	1,530,000.00	(1,529,112.60)	0.00	(1,529,112.60)			
06/01/17	06/06/17	WALT DISNEY COMPANY CORP NOTES DTD 06/06/2017 1.800% 06/05/2020	25468PDU7	3,250,000.00	(3,246,230.00)	0.00	(3,246,230.00)			
06/15/17	06/15/17	US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	8,000,000.00	(8,024,687.50)	(59,613.26)	(8,084,300.76)			
06/15/17	06/20/17	JPMORGAN CHASE & CO (CALLABLE) DTD 01/23/2015 2.250% 01/23/2020	46625HKA7	3,250,000.00	(3,262,252.50)	(29,859.38)	(3,292,111.88)			
06/19/17	06/22/17	JOHN DEERE CAPITAL CORP NOTES DTD 06/22/2017 1.950% 06/22/2020	24422ETS8	665,000.00	(664,594.35)	0.00	(664,594.35)			
06/26/17	06/28/17	US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	7,500,000.00	(7,526,953.13)	(60,264.16)	(7,587,217.29)			
Transaction Type Sub-Total				24,195,000.00	(24,253,830.08)	(149,736.80)	(24,403,566.88)			
INTEREST										
06/01/17	06/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	1,234,370.15	0.00	1,594.39	1,594.39			
06/01/17	06/25/17	FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019	3136AQS71	1,160,000.00	0.00	1,834.81	1,834.81			
06/01/17	06/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	1,583,849.53	0.00	2,685.17	2,685.17			
06/01/17	06/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AQDQ0	2,333,186.91	0.00	4,169.67	4,169.67			
06/02/17	06/02/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	404.02	404.02			
06/03/17	06/03/17	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			
06/05/17	06/05/17	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			
06/07/17	06/07/17	CITIGROUP INC CORP NOTES DTD 06/09/2016 2.050% 06/07/2019	172967KS9	1,120,000.00	0.00	11,480.00	11,480.00			
06/11/17	06/11/17	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			
06/14/17	06/14/17	CANADIAN IMPERIAL BANK NY CD DTD 12/05/2016 1.760% 11/30/2018	13606A5Z7	5,800,000.00	0.00	3,632.23	3,632.23			



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 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										
06/29/17	06/29/17	BRANCH BANKING & TRUST CORP NOTE DTD 06/29/2015 2.625% 06/29/2020	05531FAU7	2,275,000.00	0.00	29,859.38	29,859.38			
06/30/17	06/30/17	US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018	912828A75	12,975,000.00	0.00	97,312.50	97,312.50			
06/30/17	06/30/17	US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	7,500,000.00	0.00	60,937.50	60,937.50			
06/30/17	06/30/17	US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	8,000,000.00	0.00	65,000.00	65,000.00			
Transaction Type Sub-Total				50,191,406.59	0.00	344,590.92	344,590.92			
PAYDOWNS										
06/01/17	06/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	38,294.49	38,294.49	0.00	38,294.49	(382.93)	0.00	
06/01/17	06/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AODO0	68,913.39	68,913.39	0.00	68,913.39	(690.09)	0.00	
06/01/17	06/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	44,172.38	44,172.38	0.00	44,172.38	(441.56)	0.00	
Transaction Type Sub-Total				151,380.26	151,380.26	0.00	151,380.26	(1,514.58)	0.00	
SELL										
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
06/01/17	06/06/17	US TREASURY NOTES DTD 04/30/2015 1.375% 04/30/2020	912828K58	2,750,000.00	2,744,843.75	3,801.80	2,748,645.55	7,197.27	6,520.22	FIFO
06/15/17	06/20/17	JP MORGAN CHASE CORP NOTES (CALLABLE) DTD 03/02/2015 1.700% 03/01/2018	46623EKD0	3,250,000.00	3,251,235.00	16,728.47	3,267,963.47	2,080.00	1,435.43	FIFO
06/19/17	06/22/17	JOHN DEERE CAPITAL CORP DTD 01/06/2017 1.650% 10/15/2018	24422ETM1	665,000.00	665,651.70	2,042.10	667,693.80	1,083.95	977.00	FIFO
06/26/17	06/28/17	US TREASURY NOTES DTD 07/31/2013 1.375% 07/31/2018	912828V00	7,425,000.00	7,434,281.25	41,739.99	7,476,021.24	(9,861.33)	(6,708.64)	FIFO



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 2017**

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				14,700,000.00	14,706,701.00	66,396.53	14,773,097.53	2,006.59	3,127.21	
Managed Account Sub-Total					(9,395,748.82)	261,250.65	(9,134,498.17)	492.01	3,127.21	
Total Security Transactions					(\$9,395,748.82)	\$261,250.65	(\$9,134,498.17)	\$492.01	\$3,127.21	



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 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										
06/20/17	06/20/17	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			
Managed Account Sub-Total					0.00	66.94	66.94			
Total Security Transactions					\$0.00	\$66.94	\$66.94			



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 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										
06/01/17	06/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.80	0.80			
Transaction Type Sub-Total				0.00	0.00	0.80	0.80			
Managed Account Sub-Total					0.00	0.80	0.80			
Total Security Transactions					\$0.00	\$0.80	\$0.80			



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 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										
06/01/17	06/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.41	0.41			
Transaction Type Sub-Total				0.00	0.00	0.41	0.41			
Managed Account Sub-Total					0.00	0.41	0.41			
Total Security Transactions					\$0.00	\$0.41	\$0.41			



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 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										
06/01/17	06/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.82	0.82			
Transaction Type Sub-Total				0.00	0.00	0.82	0.82			
Managed Account Sub-Total					0.00	0.82	0.82			
Total Security Transactions					\$0.00	\$0.82	\$0.82			



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 2017**

SANTA ROSA 2014A WASTEWATER PROJECT 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										
06/02/17	06/02/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	62.46	62.46			
Transaction Type Sub-Total				0.00	0.00	62.46	62.46			
Managed Account Sub-Total					0.00	62.46	62.46			
Total Security Transactions					\$0.00	\$62.46	\$62.46			



Managed Account Security Transactions & Interest

For the Month Ending **June 30, 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										
06/01/17	06/01/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.84	0.84			
Transaction Type Sub-Total				0.00	0.00	0.84	0.84			
Managed Account Sub-Total					0.00	0.84	0.84			
Total Security Transactions					\$0.00	\$0.84	\$0.84			