

City of Santa Rosa

Monthly Investment Report

October 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

- The nomination of a replacement chair for the Federal Reserve Board and the introduction of tax reform legislation barely rippled the bond market. Both may still have an impact as Congressional debates and hearings await each one.
- The initial estimate of third quarter gross domestic product (GDP) indicated U.S. economic growth of 3.0% despite the rough hurricane season. Personal spending, business investment, and net exports were significant contributors.
- The labor market rebounded, adding 261,000 jobs in October. Importantly, the prior month's hurricane-induced decline was revised to a gain of 18,000 jobs. The unemployment rate fell to a sixteen-year-low of 4.1%.
- Inflation remained well short of the Federal Reserve's (Fed) target level of 2%. Core personal consumption expenditures (PCE) grew only 1.3% year-over-year (YoY) through September, but the positive overall economic backdrop led U.S. central bankers to signal they would continue to tighten monetary policy by affirming an additional rate hike by year-end.
- Major central banks overseas maintained loose monetary policies but are beginning to slowly shift to a bias toward reducing accommodation.

Market Reaction

- Bond investors largely shrugged off the Fed leadership nomination and potential tax changes. Short-term rates rose 0.1%–0.15% as it became clearer that the Fed would raise short-term rates in December, but intermediate- and long-term rates barely budged.
- The nomination of Fed Governor Jerome Powell as the Federal Reserve Board chair is not expected to affect monetary policy in the near-term. Powell has been supportive of current chair Janet Yellen's cautious and data-dependent approach to monetary policy.
- The yield on two-year Treasury notes rose 11 basis points (bps) to 1.60%, pushing to a nine-year-high. The yield on 10-year Treasury notes rose 5 bps to 2.38%. The modest sell-off caused most Treasury benchmarks to book negative returns for the month.
- Federal agency yields kept pace with those of Treasuries, as yield spreads remained narrow. Agency indices generally outperformed similar-maturity Treasury indices.
- Investment-grade corporates continued to outperform comparable-maturity Treasuries. Robust third quarter earnings results have kept the demand for corporate bonds strong.

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

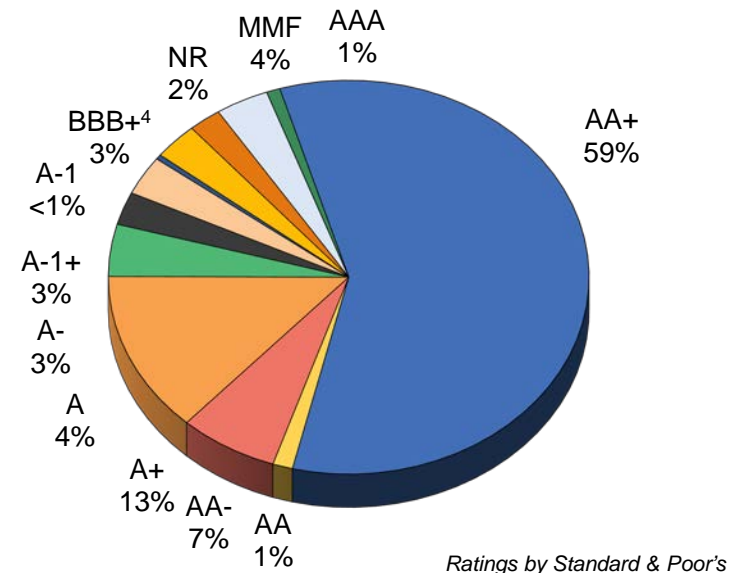
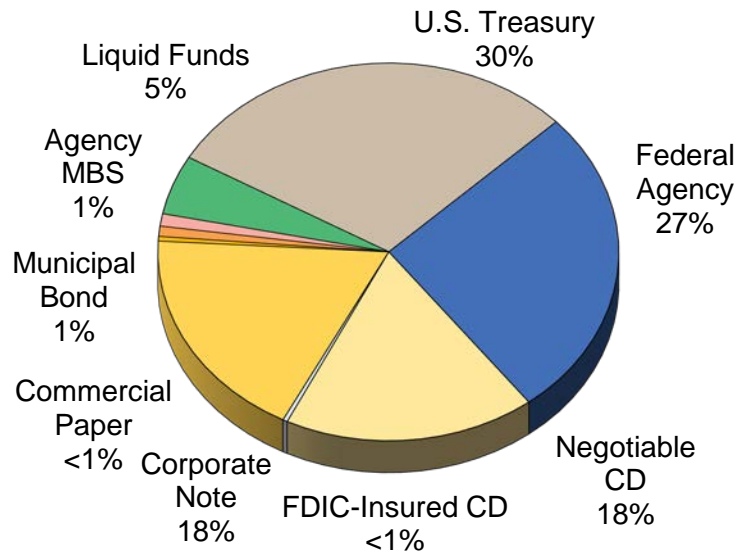
- The maturity distribution of the City's funds (market value plus accrued interest) from one day to the five-year mandated limit.
- The percentage change in maturity distribution month-over-month is shown in the table.
- Demonstrates level of diversification by maturity date. Shows placement of funds 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

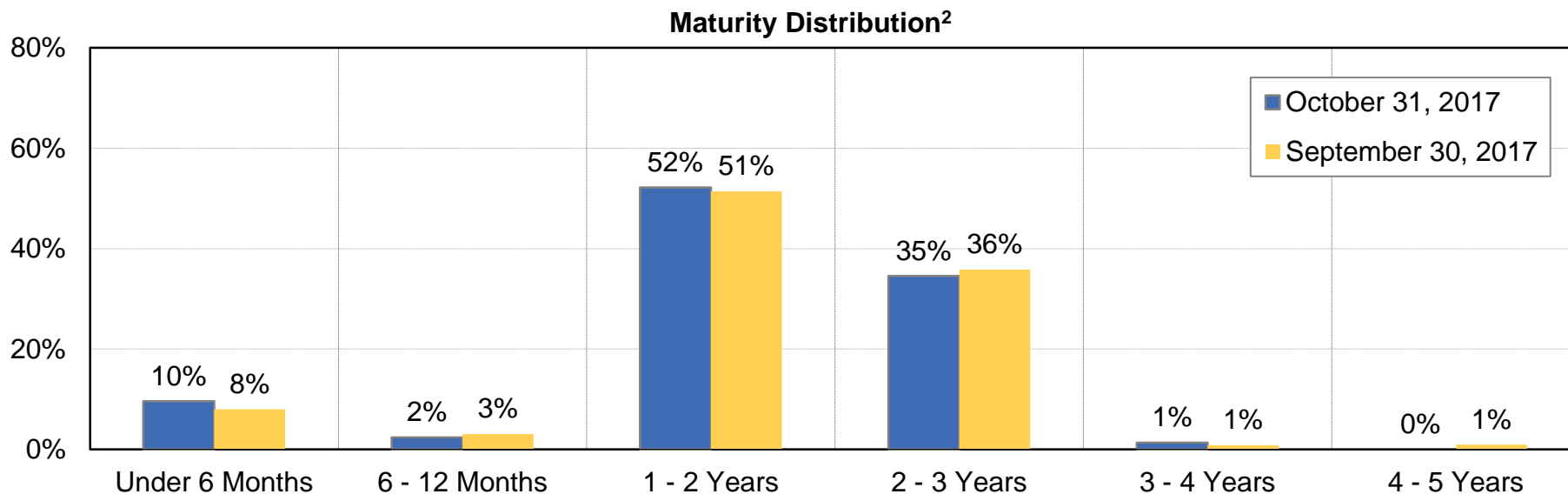
Security Type	Par Value	Amortized Cost Value ¹	Market Value ¹	October 31, 2017 % of Portfolio ³
U.S. Treasury	\$106,605,000	\$107,095,022	\$106,630,331	30%
Federal Agency	\$96,983,000	\$97,103,706	\$96,345,089	27%
Federal Agency Mortgage-Backed	\$3,803,251	\$3,821,560	\$3,806,105	1%
Negotiable CD	\$63,065,000	\$63,425,005	\$63,497,671	18%
FDIC-Insured CD	\$1,176,880	\$1,180,385	\$1,178,311	<1%
Corporate Notes	\$65,829,000	\$66,171,834	\$66,102,558	18%
Commercial Paper	\$1,437,000	\$1,433,672	\$1,433,823	<1%
Municipal Bond	\$3,175,000	\$3,187,839	\$3,149,582	1%
Liquid Funds²	\$18,372,507	\$18,372,507	\$18,372,507	5%
Total Value	\$360,446,637	\$361,791,531	\$360,515,977	100%



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	October 31, 2017 % of Portfolio	September 30, 2017 % of Portfolio
Under 6 Months	\$34,483,722	10%	8%
6–12 Months	\$8,641,890	2%	3%
1–2 Years	\$188,134,052	52%	51%
2–3 Years	\$124,478,191	35%	36%
3–4 Years	\$4,778,122	1%	1%
4–5 Years	\$0	0%	1%
Total Market Value	\$360,515,977	100%	100%

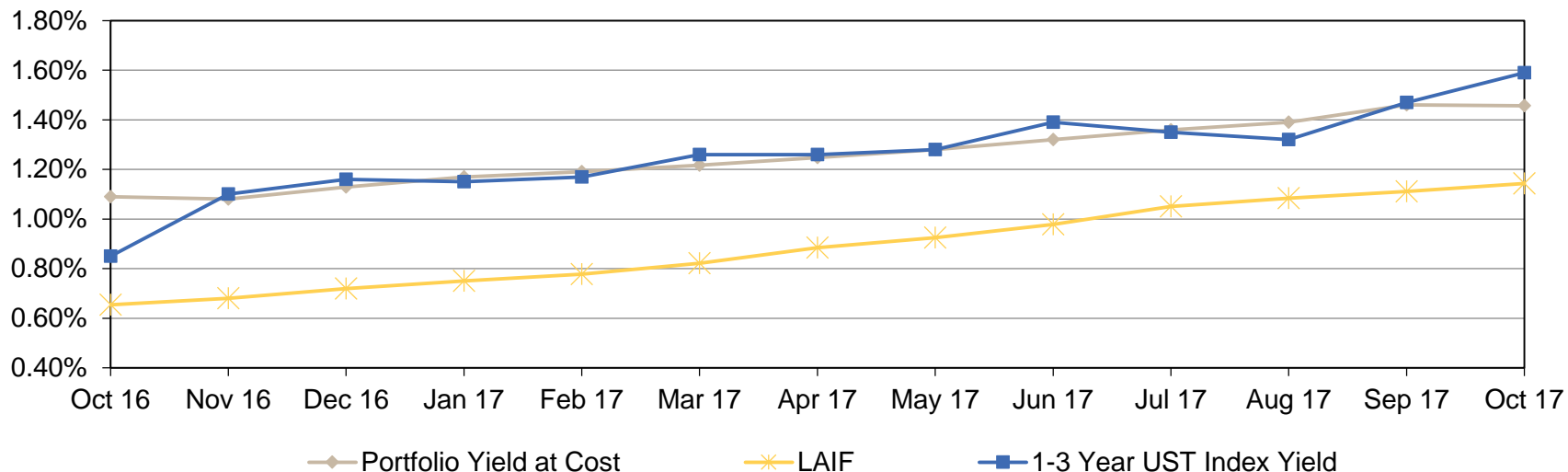


1. Funds held in LAIF are included in the under 6-month range because they can be accessed within one day.
 2. Security market values include accrued interest as of trade date. Values may not sum exactly to 100% due to rounding.

Portfolio Yield Summary

Date	Market Value ¹	Portfolio Duration	Portfolio Yield (Cost)	LAIF Yield (Monthly Effective) ²	1-3 Year Treasury Index Yield ²
Apr-17	\$398,294,818	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%
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%

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 **October 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										
10/11/17	10/20/17	WAL-MART STORES INC CORP NOTE DTD 10/20/2017 1.750% 10/09/2019	931142DY6	1,505,000.00	(1,504,969.90)	0.00	(1,504,969.90)			
10/17/17	10/17/17	US TREASURY NOTES DTD 10/31/2015 1.375% 10/31/2020	912828L99	700,000.00	(693,164.06)	(4,446.33)	(697,610.39)			
10/23/17	10/30/17	AMERICAN EXPRESS CO CORP NOTE DTD 10/30/2017 2.200% 10/30/2020	025816BP3	1,500,000.00	(1,498,050.00)	0.00	(1,498,050.00)			
10/23/17	10/30/17	HONEYWELL INTERNATIONAL CORP NOTES DTD 10/30/2017 1.800% 10/30/2019	438516BQ8	880,000.00	(879,313.60)	0.00	(879,313.60)			

Transaction Type Sub-Total				4,585,000.00	(4,575,497.56)	(4,446.33)	(4,579,943.89)			
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INTEREST										
10/01/17	10/01/17	MS ST TXBL GO BONDS DTD 02/18/2015 1.090% 10/01/2017	605581FX0	350,000.00	0.00	1,907.50	1,907.50			
10/01/17	10/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AODO0	1,875,463.90	0.00	3,280.13	3,280.13			
10/01/17	10/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	837,654.23	0.00	1,246.01	1,246.01			
10/01/17	10/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	570,958.12	0.00	737.49	737.49			
10/01/17	10/25/17	FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019	3136AOSW1	764,709.43	0.00	1,209.57	1,209.57			
10/03/17	10/03/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	80.98	80.98			
10/04/17	10/04/17	PEPSICO, INC CORP NOTES DTD 10/06/2016 1.350% 10/04/2019	713448DJ4	645,000.00	0.00	4,353.75	4,353.75			
10/05/17	10/05/17	BANK OF NOVA SCOTIA HOUSTON LT CD DTD 04/06/2017 1.910% 04/05/2019	06417GUE6	5,850,000.00	0.00	56,488.25	56,488.25			
10/15/17	10/15/17	FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	7,000,000.00	0.00	39,375.00	39,375.00			
10/15/17	10/15/17	JOHN DEERE CAPITAL CORP DTD 01/06/2017 1.650% 10/15/2018	24422ETM1	475,000.00	0.00	3,918.75	3,918.75			
10/15/17	10/15/17	FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	275,000.00	0.00	1,546.88	1,546.88			



Managed Account Security Transactions & Interest

For the Month Ending **October 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										
10/17/17	10/17/17	TOYOTA MOTOR CREDIT CORP (CALLABLE) DTD 04/17/2017 1.950% 04/17/2020	89236TDU6	475,000.00	0.00	4,631.25	4,631.25			
10/22/17	10/22/17	WELLS FARGO & COMPANY CORP NOTE DTD 04/22/2014 2.125% 04/22/2019	94974BFU9	1,614,000.00	0.00	17,148.75	17,148.75			
10/24/17	10/24/17	FANNIE MAE GLOBAL NOTES DTD 10/25/2016 1.000% 10/24/2019	3135G0R39	5,000,000.00	0.00	25,000.00	25,000.00			
10/25/17	10/25/17	GOLDMAN SACHS GRP INC CORP NT (CALLABLE) DTD 04/25/2016 2.000% 04/25/2019	38141GVT8	390,000.00	0.00	3,900.00	3,900.00			
10/25/17	10/25/17	GOLDMAN SACHS GRP INC CORP NT (CALLABLE) DTD 04/25/2016 2.000% 04/25/2019	38141GVT8	2,500,000.00	0.00	25,000.00	25,000.00			
10/26/17	10/26/17	CITIGROUP INC CORP NOTES DTD 10/26/2015 2.650% 10/26/2020	172967KB6	2,100,000.00	0.00	27,825.00	27,825.00			
10/30/17	10/30/17	AMERICAN EXPRESS CREDIT (CALLABLE) CORP DTD 10/31/2016 1.700% 10/30/2019	0258M0EC9	500,000.00	0.00	4,250.00	4,250.00			
10/31/17	10/31/17	US TREASURY NOTES DTD 04/30/2015 1.375% 04/30/2020	912828K58	3,950,000.00	0.00	27,156.25	27,156.25			
10/31/17	10/31/17	US TREASURY NOTES DTD 04/30/2015 1.375% 04/30/2020	912828K58	6,250,000.00	0.00	42,968.75	42,968.75			
10/31/17	10/31/17	US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	7,200,000.00	0.00	58,500.00	58,500.00			
10/31/17	10/31/17	US TREASURY NOTES DTD 04/30/2015 1.375% 04/30/2020	912828K58	2,250,000.00	0.00	15,468.75	15,468.75			
10/31/17	10/31/17	US TREASURY NOTES DTD 10/31/2015 1.375% 10/31/2020	912828L99	700,000.00	0.00	4,812.50	4,812.50			
Transaction Type Sub-Total				51,572,785.68	0.00	370,805.56	370,805.56			
MATURITY										
10/01/17	10/01/17	MS ST TXBL GO BONDS DTD 02/18/2015 1.090% 10/01/2017	605581FX0	350,000.00	350,000.00	0.00	350,000.00	0.00	0.00	



Managed Account Security Transactions & Interest

For the Month Ending **October 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	
Transaction Type Sub-Total				350,000.00	350,000.00	0.00	350,000.00	0.00	0.00		
PAYDOWNS											
10/01/17	10/25/17	FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	23,112.36	23,112.36	0.00	23,112.36	(231.04)	0.00		
10/01/17	10/25/17	FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019	3136AODO0	127,103.00	127,103.00	0.00	127,103.00	(1,272.80)	0.00		
10/01/17	10/25/17	FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019	3136AQSW1	35,559.51	35,559.51	0.00	35,559.51	(355.59)	0.00		
10/01/17	10/25/17	FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	59,760.04	59,760.04	0.00	59,760.04	(597.57)	0.00		
Transaction Type Sub-Total				245,534.91	245,534.91	0.00	245,534.91	(2,457.00)	0.00		
SELL											
10/12/17	10/20/17	US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	950,000.00	947,996.09	4,607.24	952,603.33	(3,933.60)	(2,714.32)	FIFO	
10/13/17	10/17/17	BERKSHIRE HATHAWAY INC GLOBAL NOTES DTD 08/15/2016 1.150% 08/15/2018	084670BX5	700,000.00	698,313.00	1,386.39	699,699.39	(1,603.00)	(1,652.01)	FIFO	
10/23/17	10/30/17	BANK OF NEW YORK MELLON CORP (CALLABLE) DTD 05/29/2015 1.600% 05/22/2018	06406HDB2	275,000.00	275,030.25	1,931.11	276,961.36	55.00	35.06	FIFO	
10/23/17	10/30/17	US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	1,050,000.00	1,047,662.11	5,450.82	1,053,112.93	(4,470.70)	(3,103.94)	FIFO	
10/23/17	10/30/17	AMERICAN EXPRESS CRD CRP NT (CALLABLE) DTD 07/31/2015 1.800% 07/31/2018	0258M0DV8	1,025,000.00	1,025,861.00	4,612.50	1,030,473.50	(3,105.75)	(128.01)	FIFO	
Transaction Type Sub-Total				4,000,000.00	3,994,862.45	17,988.06	4,012,850.51	(13,058.05)	(7,563.22)		
Managed Account Sub-Total					14,899.80	384,347.29	399,247.09	(15,515.05)	(7,563.22)		
Total Security Transactions					\$14,899.80	\$384,347.29	\$399,247.09	(\$15,515.05)	(\$7,563.22)		



Managed Account Security Transactions & Interest

For the Month Ending **October 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										
10/20/17	10/20/17	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 **October 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										
10/02/17	10/02/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	1.18	1.18			
Transaction Type Sub-Total				0.00	0.00	1.18	1.18			
Managed Account Sub-Total					0.00	1.18	1.18			
Total Security Transactions					\$0.00	\$1.18	\$1.18			



Managed Account Security Transactions & Interest

For the Month Ending **October 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										
10/02/17	10/02/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	0.55	0.55			
Transaction Type Sub-Total				0.00	0.00	0.55	0.55			
Managed Account Sub-Total					0.00	0.55	0.55			
Total Security Transactions					\$0.00	\$0.55	\$0.55			



Managed Account Security Transactions & Interest

For the Month Ending **October 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										
10/02/17	10/02/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	2.71	2.71			
Transaction Type Sub-Total				0.00	0.00	2.71	2.71			
Managed Account Sub-Total					0.00	2.71	2.71			
Total Security Transactions					\$0.00	\$2.71	\$2.71			



Managed Account Security Transactions & Interest

For the Month Ending **October 31, 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										
10/03/17	10/03/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	81.58	81.58			
Transaction Type Sub-Total				0.00	0.00	81.58	81.58			
Managed Account Sub-Total					0.00	81.58	81.58			
Total Security Transactions					\$0.00	\$81.58	\$81.58			



Managed Account Security Transactions & Interest

For the Month Ending **October 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										
10/02/17	10/02/17	MONEY MARKET FUND	MONEY0002	0.00	0.00	505.50	505.50			
Transaction Type Sub-Total				0.00	0.00	505.50	505.50			
Managed Account Sub-Total					0.00	505.50	505.50			
Total Security Transactions					\$0.00	\$505.50	\$505.50			