

City of Santa Rosa

Monthly Investment Report

December 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

- After months of build-up and speculation, Congress passed a controversial tax cut bill in late December. This new legislation, the first major tax reform since 1986, lowers the corporate tax rate to 21% from 35% while also lowering individual tax rates. Early assessments suggest a positive economic reaction for the near term.
- Final tallies for second and third quarter U.S. gross domestic product (GDP) were 3.1% and 3.2%, respectively. This is the first time since 2014 that the U.S. economy grew at more than 3% in back-to-back quarters. Economists raised projections for growth over the next year to the 2.5 – 3% level with consumer spending and private investment bolstering those estimates.
- At its December meeting, the Federal Open Market Committee (FOMC) raised the overnight fed funds target rate for the third time in 2017, to a new range of 1.25% to 1.5%. Federal Reserve (Fed) Governors and many investors anticipate another three hikes in 2018.
- Inflation remains well below the Fed's target of 2%. Core personal consumption expenditures (PCE), year-over-year, have posted sub-two percent levels for consecutive months since May 2012.
- The December jobs report showed the economy added 148,000 jobs—a disappointing result. Overall, 2017 averaged 171,000 jobs added per month, a bit below the 221,000 per year for the prior three years. Other key labor market indicators were unchanged including the low unemployment rate and the trend of modest wage growth.

Market Reaction

- The U.S. Treasury yield curve continued to flatten in December. The combination of Fed rate hikes buoying the front end of the curve and tepid inflation restraining long-term Treasury rates has resulted in the least slope in the yield curve since 2007. Ten-year Treasury yields were unchanged in December at 2.41%, while two-year yields rose 10 basis points (bps) to 1.89%.
- The increase in short- and intermediate-term Treasury yields depressed returns for the month as market price erosion offset income for maturities of less than seven years. However, benchmark Treasury notes for 10- and 30-year constant maturities exponentially outpaced their shorter counterparts, posting one-month unannualized returns of 0.26% and 2.07%, respectively.
- Corporate bonds finished the year on a strong note, as credit spreads narrowed further, yet again reaching new post-recession lows.
- Despite the Fed's ongoing balance sheet reduction measures, federal agency mortgage-backed securities (MBS) provided positive excess returns relative to Treasuries in December.

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

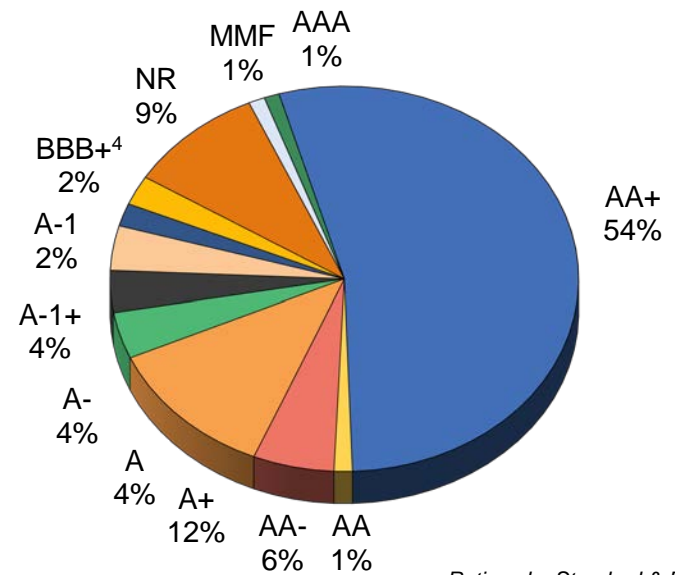
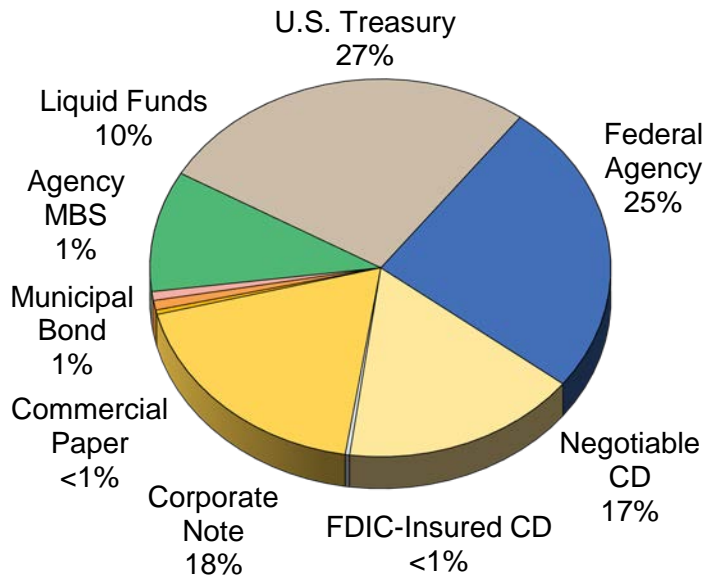
- The maturity distribution of the City's funds (market value plus accrued interest) from one day to the five-year mandated limit.
- The percentage change in maturity distribution month-over-month is shown in the table.
- Demonstrates level of diversification by maturity date. Shows placement of funds 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 | December 31, 2017 % of Portfolio ³ |
|---------------------------------------|----------------------|-----------------------------------|---------------------------|--|
| U.S. Treasury | \$103,530,000 | \$103,782,544 | \$102,926,597 | 27% |
| Federal Agency | \$96,983,000 | \$97,284,876 | \$96,199,217 | 25% |
| Federal Agency Mortgage-Backed | \$2,913,212 | \$2,925,739 | \$2,910,696 | 1% |
| Negotiable CD | \$63,115,000 | \$63,597,707 | \$63,420,481 | 17% |
| FDIC-Insured CD | \$1,170,377 | \$1,172,096 | \$1,171,863 | <1% |
| Corporate Notes | \$70,804,000 | \$71,154,457 | \$70,782,787 | 18% |
| Commercial Paper | \$1,437,000 | \$1,436,894 | \$1,436,704 | <1% |
| Municipal Bond | \$3,175,000 | \$3,194,338 | \$3,141,349 | 1% |
| Liquid Funds² | \$39,482,668 | \$39,482,668 | \$39,482,668 | 10% |
| Total Value | \$382,610,257 | \$384,031,319 | \$381,472,361 | 100% |

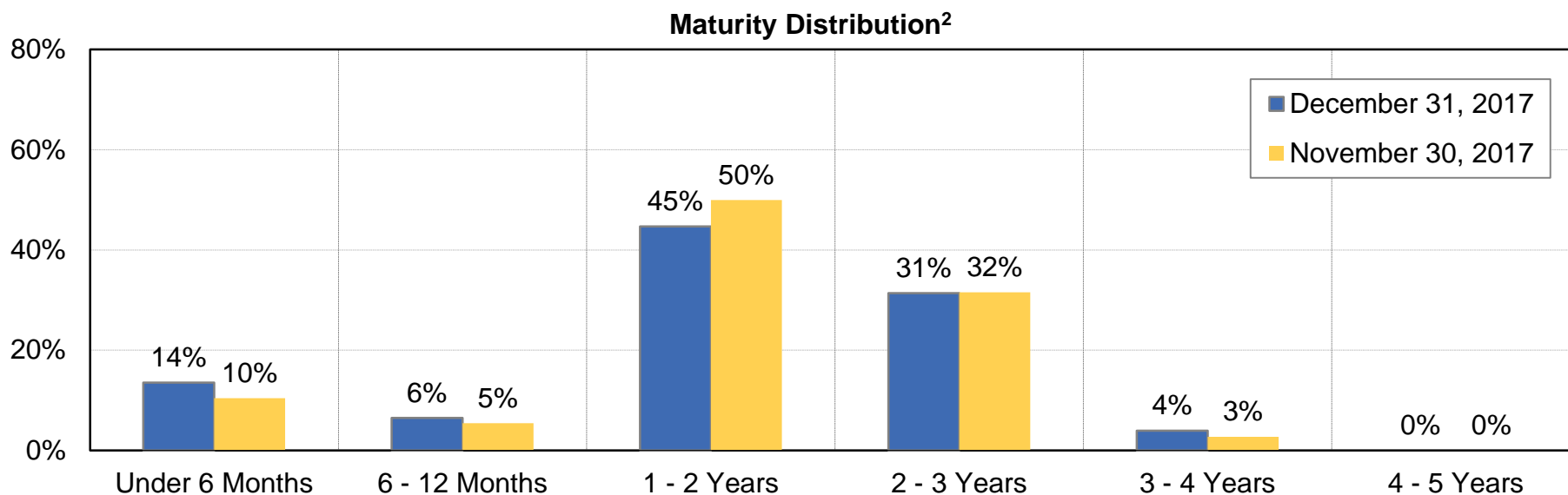


Ratings by Standard & Poor's

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 | December 31, 2017 % of Portfolio | November 30, 2017 % of Portfolio |
|---------------------------|---------------------------|-------------------------------------|-------------------------------------|
| Under 6 Months | \$51,583,452 | 14% | 10% |
| 6–12 Months | \$24,680,055 | 6% | 5% |
| 1–2 Years | \$170,434,998 | 45% | 50% |
| 2–3 Years | \$119,728,172 | 31% | 32% |
| 3–4 Years | \$15,045,684 | 4% | 3% |
| 4–5 Years | \$0 | 0% | 0% |
| Total Market Value | \$381,472,361 | 100% | 100% |

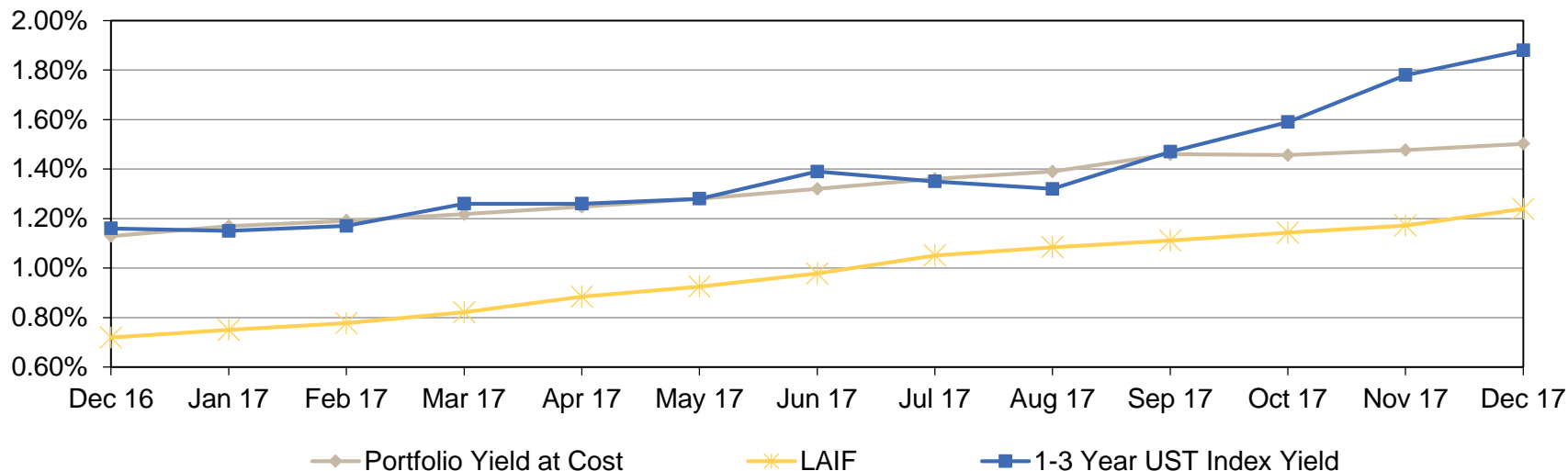


1. Funds held in LAIF are included in the under 6-month range because they can be accessed within one day.
2. Security market values include accrued interest as of trade date. Values may not sum exactly to 100% due to rounding.

Portfolio Yield Summary

| Date | Market Value ¹ | Portfolio Duration | Portfolio Yield (Cost) | LAIF Yield (Monthly Effective) ² | 1-3 Year Treasury Index Yield ² |
|--------|---------------------------|--------------------|------------------------|---|--|
| 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% |
| 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% |

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, 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 | | | | | | | | | | |
| 12/01/17 | 12/05/17 | US TREASURY N/B DTD 12/31/2015 1.750% 12/31/2020 | 912828N48 | 9,000,000.00 | (8,957,109.38) | (67,622.28) | (9,024,731.66) | | | |
| 12/27/17 | 12/28/17 | US TREASURY NOTES DTD 01/31/2016 1.375% 01/31/2021 | 912828N89 | 575,000.00 | (563,567.38) | (3,222.66) | (566,790.04) | | | |
| Transaction Type Sub-Total | | | | 9,575,000.00 | (9,520,676.76) | (70,844.94) | (9,591,521.70) | | | |
| INTEREST | | | | | | | | | | |
| 12/01/17 | 12/01/17 | MONEY MARKET FUND | MONEY0002 | 0.00 | 0.00 | 170.72 | 170.72 | | | |
| 12/01/17 | 12/25/17 | FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019 | 3136AODO0 | 1,452,186.13 | 0.00 | 3,431.36 | 3,431.36 | | | |
| 12/01/17 | 12/25/17 | FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019 | 3136ASPX8 | 771,424.97 | 0.00 | 1,147.49 | 1,147.49 | | | |
| 12/01/17 | 12/25/17 | FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018 | 3136ANJY4 | 496,263.28 | 0.00 | 641.01 | 641.01 | | | |
| 12/01/17 | 12/25/17 | FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019 | 3136AOSW1 | 501,724.13 | 0.00 | 793.59 | 793.59 | | | |
| 12/03/17 | 12/03/17 | 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 | | | |
| 12/05/17 | 12/05/17 | HOME DEPOT INC CORP NOTES DTD 06/05/2017 1.800% 06/05/2020 | 437076BO4 | 1,530,000.00 | 0.00 | 13,770.00 | 13,770.00 | | | |
| 12/05/17 | 12/05/17 | WALT DISNEY COMPANY CORP NOTES DTD 06/06/2017 1.800% 06/05/2020 | 25468PDU7 | 3,250,000.00 | 0.00 | 29,087.50 | 29,087.50 | | | |
| 12/07/17 | 12/07/17 | 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 | | | |
| 12/14/17 | 12/14/17 | VISA INC (CALLABLE) CORP NOTES DTD 12/14/2015 2.200% 12/14/2020 | 92826CAB8 | 825,000.00 | 0.00 | 9,075.00 | 9,075.00 | | | |
| 12/22/17 | 12/22/17 | JOHN DEERE CAPITAL CORP NOTES DTD 06/22/2017 1.950% 06/22/2020 | 24422ETS8 | 665,000.00 | 0.00 | 6,483.75 | 6,483.75 | | | |
| 12/29/17 | 12/29/17 | BRANCH BANKING & TRUST (CALLABLE) CORP DTD 06/29/2015 2.625% 06/29/2020 | 05531FAU7 | 2,275,000.00 | 0.00 | 29,859.38 | 29,859.38 | | | |
| 12/31/17 | 12/31/17 | US TREASURY N/B DTD 12/31/2015 1.750% 12/31/2020 | 912828N48 | 9,000,000.00 | 0.00 | 78,750.00 | 78,750.00 | | | |



Managed Account Security Transactions & Interest

For the Month Ending **December 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 | | | | | | | | | | |
| 12/31/17 | 12/31/17 | 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 | | | |
| 12/31/17 | 12/31/17 | 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 | | | |
| 12/31/17 | 12/31/17 | US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018 | 912828A75 | 4,075,000.00 | 0.00 | 30,562.50 | 30,562.50 | | | |
| Transaction Type Sub-Total | | | | 44,361,598.51 | 0.00 | 362,214.80 | 362,214.80 | | | |
| PAYDOWNS | | | | | | | | | | |
| 12/01/17 | 12/25/17 | FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018 | 3136ANJY4 | 28,628.00 | 28,628.00 | 0.00 | 28,628.00 | (286.18) | 0.00 | |
| 12/01/17 | 12/25/17 | FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019 | 3136ASPX8 | 1,255.00 | 1,255.00 | 0.00 | 1,255.00 | (12.55) | 0.00 | |
| 12/01/17 | 12/25/17 | FNMA SERIES 2015-M15 ASQ2 DTD 11/01/2015 1.898% 01/01/2019 | 3136AOSW1 | 83,551.26 | 83,551.26 | 0.00 | 83,551.26 | (835.50) | 0.00 | |
| 12/01/17 | 12/25/17 | FANNIE MAE SERIES 2015-M13 ASQ2 DTD 10/01/2015 1.646% 09/01/2019 | 3136AODO0 | 194,951.82 | 194,951.82 | 0.00 | 194,951.82 | (1,952.23) | 0.00 | |
| Transaction Type Sub-Total | | | | 308,386.08 | 308,386.08 | 0.00 | 308,386.08 | (3,086.46) | 0.00 | |
| SELL | | | | | | | | | | |
| 12/01/17 | 12/05/17 | US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018 | 912828A75 | 8,250,000.00 | 8,232,919.92 | 53,131.79 | 8,286,051.71 | (87,011.72) | (41,742.63) | FIFO |
| Transaction Type Sub-Total | | | | 8,250,000.00 | 8,232,919.92 | 53,131.79 | 8,286,051.71 | (87,011.72) | (41,742.63) | |
| Managed Account Sub-Total | | | | | (979,370.76) | 344,501.65 | (634,869.11) | (90,098.18) | (41,742.63) | |
| Total Security Transactions | | | | | (979,370.76) | \$344,501.65 | (\$634,869.11) | (\$90,098.18) | (\$41,742.63) | |



Managed Account Security Transactions & Interest

For the Month Ending **December 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 |
| BUY | | | | | | | | | | |
| 12/20/17 | 12/20/17 | POPPY BANK (FIRST COMM) FDIC-INSURED CD DTD 12/20/2017 1.350% 12/20/2018 | RE1292169 | 245,000.00 | (245,000.00) | 0.00 | (245,000.00) | | | |
| 12/20/17 | 12/20/17 | EXCHANGE BANK (FDIC-INSURED) CD DTD 12/20/2017 1.070% 12/20/2018 | RE1292151 | 245,000.00 | (245,000.00) | 0.00 | (245,000.00) | | | |
| 12/23/17 | 12/23/17 | COMMUNITY FIRST CREDIT (FDIC-INSURED) CD DTD 12/23/2017 1.260% 12/23/2018 | RE1292177 | 245,000.00 | (245,000.00) | 0.00 | (245,000.00) | | | |
| Transaction Type Sub-Total | | | | 735,000.00 | (735,000.00) | 0.00 | (735,000.00) | | | |
| INTEREST | | | | | | | | | | |
| 12/20/17 | 12/20/17 | 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 | | | |
| MATURITY | | | | | | | | | | |
| 12/20/17 | 12/20/17 | FIRST COMMUNITY BANK OF AMERICA CD DTD 12/20/2016 0.600% 12/20/2017 | RE1274985 | 247,214.35 | 247,214.35 | 889.97 | 248,104.32 | 0.00 | 0.00 | |
| 12/20/17 | 12/20/17 | EXCHANGE BANK CD DTD 12/20/2016 0.600% 12/20/2017 | RE1274951 | 247,133.41 | 247,133.41 | 889.68 | 248,023.09 | 0.00 | 0.00 | |
| 12/23/17 | 12/23/17 | COMMUNITY FIRST CREDIT UNION CD DTD 12/23/2016 0.600% 12/23/2017 | RE1274977 | 247,155.46 | 247,155.46 | 889.76 | 248,045.22 | 0.00 | 0.00 | |
| Transaction Type Sub-Total | | | | 741,503.22 | 741,503.22 | 2,669.41 | 744,172.63 | 0.00 | 0.00 | |
| Managed Account Sub-Total | | | | | 6,503.22 | 2,734.19 | 9,237.41 | 0.00 | 0.00 | |
| Total Security Transactions | | | | | \$6,503.22 | \$2,734.19 | \$9,237.41 | \$0.00 | \$0.00 | |



Managed Account Security Transactions & Interest

For the Month Ending **December 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 | | | | | | | | | | |
| 12/01/17 | 12/01/17 | 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 **December 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 | | | | | | | | | | |
| 12/01/17 | 12/01/17 | 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 **December 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 | | | | | | | | | | |
| 12/01/17 | 12/01/17 | MONEY MARKET FUND | MONEY0002 | 0.00 | 0.00 | 83.87 | 83.87 | | | |
| Transaction Type Sub-Total | | | | 0.00 | 0.00 | 83.87 | 83.87 | | | |
| Managed Account Sub-Total | | | | | 0.00 | 83.87 | 83.87 | | | |
| Total Security Transactions | | | | | \$0.00 | \$83.87 | \$83.87 | | | |



Managed Account Security Transactions & Interest

For the Month Ending **December 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 | | | | | | | | | | |
| 12/01/17 | 12/01/17 | MONEY MARKET FUND | MONEY0002 | 0.00 | 0.00 | 184.02 | 184.02 | | | |
| Transaction Type Sub-Total | | | | 0.00 | 0.00 | 184.02 | 184.02 | | | |
| Managed Account Sub-Total | | | | | 0.00 | 184.02 | 184.02 | | | |
| Total Security Transactions | | | | | \$0.00 | \$184.02 | \$184.02 | | | |