



FOR CITY COUNCIL MEETING OF:
AGENDA ITEM NO.:

May 9, 2016
6(c)

TO: MAYOR AND CITY COUNCIL
THROUGH: STEVE POWERS, CITY MANAGER 
FROM:  KACEY DUNCAN, DEPUTY CITY MANAGER
SUBJECT: INVESTMENT PORTFOLIO REPORT FOR THE PERIOD OF
JANUARY 1, 2016, THROUGH MARCH 31, 2016

ISSUE:

To provide the Salem City Council the investment portfolio report for the quarter ending March 31, 2016.

RECOMMENDATION:


Information only.

SUMMARY AND BACKGROUND:

The City's Investment Policy, Council Policy C-7, requires the quarterly investment report be provided to the City's Finance Committee. However, due to the cancellation of April 18, 2016, meeting, the investment report will be provided to the Finance Committee at its next scheduled meeting on May 16, 2016. In order to maintain timely communication regarding the City's investments, staff is providing the report to Council.

FACTS AND FINDINGS:

The City's Investment Advisors, PFM Asset Management, LLC, prepared the attached report for the quarter ending March 31, 2016.


Sandra Montoya
Financial Services Administrator
503-588-6010

Attachments:

1. Quarterly Investment Report

Wards: All
April 27, 2016



City of Salem
Quarterly Investment Report
Quarter Ended March 31, 2016



The PFM Group
Financial & Investment Advisors

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San Francisco, CA
415-982-5544
Lauren Brant, Managing Director
brantl@pfm.com

Attachment I

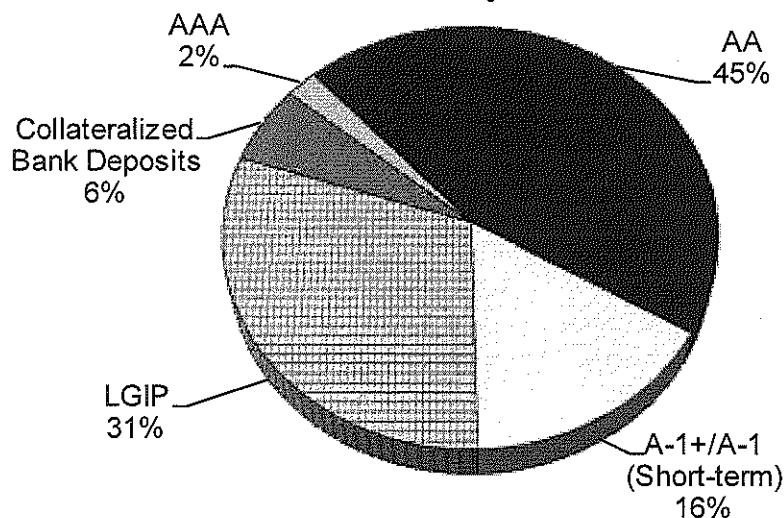
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Summary By Sector ¹	Amortized Cost	Market Value	% of Portfolio	Allowed by Policy
U.S. Treasuries	90,041,654	90,267,042	33%	100%
Federal Agencies	23,968,355	23,992,907	9%	100%
Municipal Obligations	408,910	408,985	<1%	10%
Commercial Paper	26,946,422	26,954,930	10%	35%
Corporate Notes	30,433,933	30,513,547	11%	
LGIP	82,707,337	82,707,337	31%	ORS limit
Collateralized Deposit Accounts	16,402,798	16,402,798	6%	100%
Total	\$270,909,409	\$271,247,546	100%	
Callable Securities	2,005,557	2,003,651	1%	25%

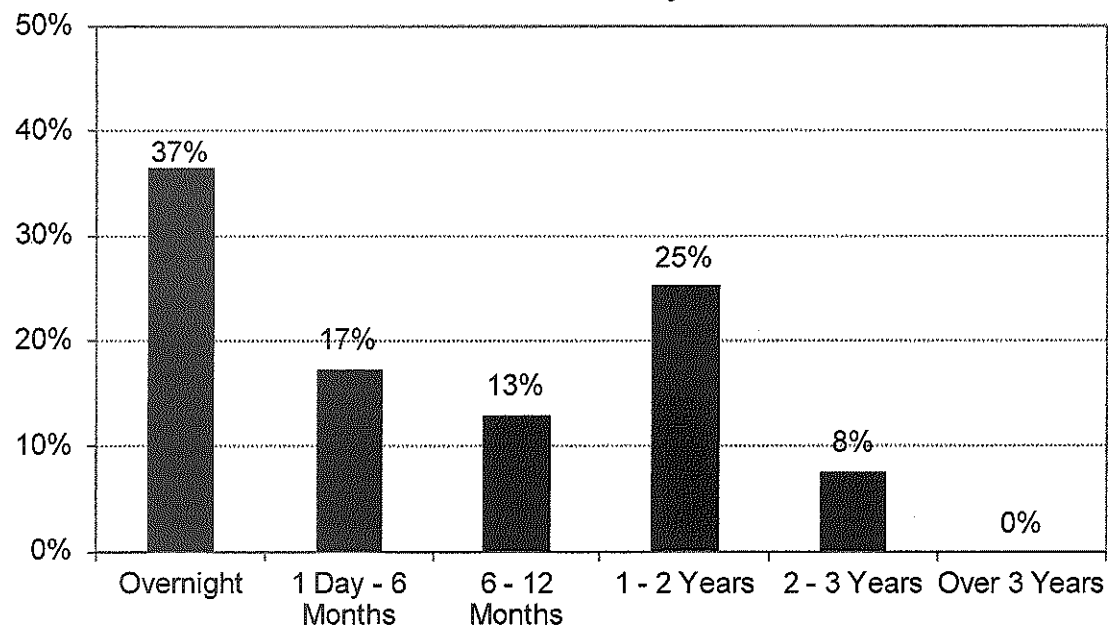
Combined Portfolio Statistics	
Combined Portfolio Yield on Cost (3/31/2016)	0.78%
Weighted Average Maturity (3/31/2016)	0.66 years

Combined Portfolio Earnings (excludes earnings on LGIP and deposit accounts)	
Cash Basis Earnings for Quarter	\$83,244
Accrual Basis Earnings for Quarter	\$355,397

Credit Quality Distribution²

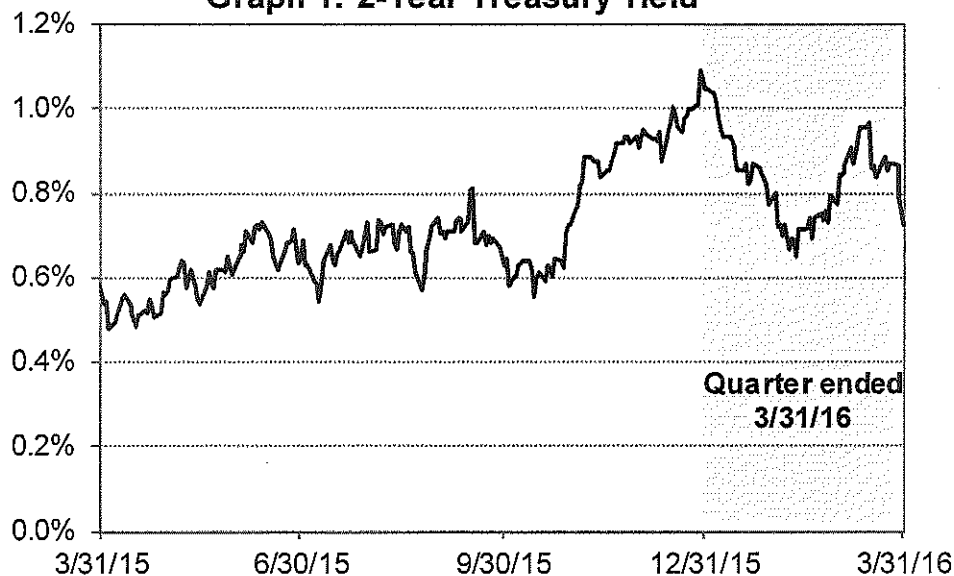


Combined Portfolio Maturity Distribution³

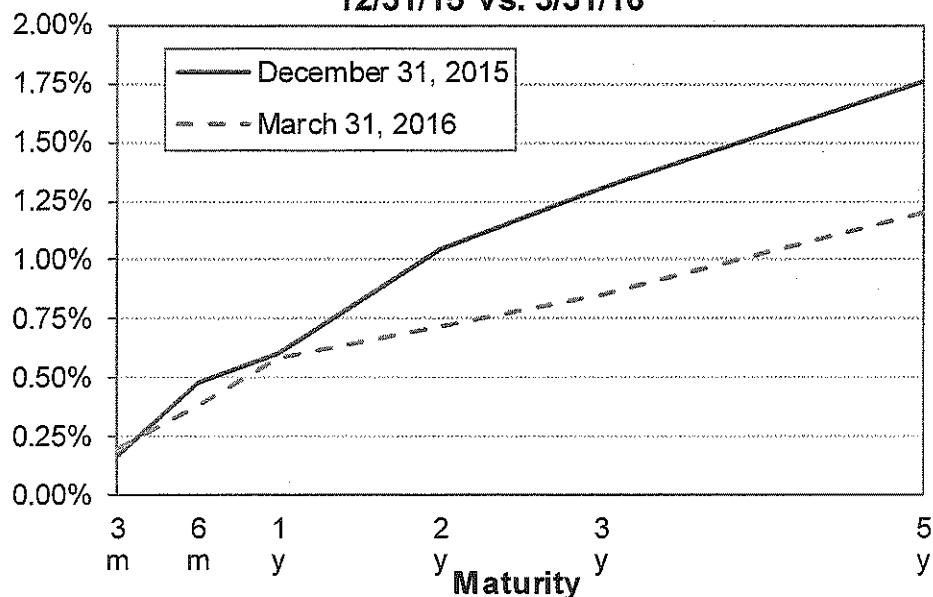


1. Values as of March 31, 2016, including accrued interest.
 2. Ratings by Standard & Poor's.
 3. Callable securities are included to their stated maturity dates.

Graph 1: 2-Year Treasury Yield



Graph 2: U.S. Treasury Yield Curves
12/31/15 vs. 3/31/16



Source: Bloomberg

- Graph 1: Interest rates on 2-year Treasuries continue to be volatile.
 - Global growth concerns and fears of a slowdown in the U.S. drove investors into the safety of U.S. Treasuries early in the year. The increased demand for these investments caused their prices to rise and, consequently, their yields to fall.
 - Stronger economic reports soothed investor concerns in mid-February and yields reversed course. Following the Federal Reserve’s March meeting, their second of 2016, yields trended lower again. Yields fell in response to comments from the Fed on global growth concerns and on expectations that low inflation in the U.S. will likely limit rate hikes to just two in 2016.
 - The Federal Reserve maintained the fed funds target rate at 0.25%-0.50%.
- Graph 2: Graph 2 plots the yields of U.S. Treasuries at different maturities on December 31, 2015 and March 31, 2016.
 - Yields ended the quarter lower in all maturities except for very short maturities, which were directly impacted by December’s increase in the federal funds rate.

Combined Portfolio Summary¹

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Market Value (MV)	271,247,546	267,192,077	206,261,434	216,024,822
Amortized Cost	270,909,409	267,473,960	205,841,850	215,740,635

Quarterly Summary	Quarter Ending March 31, 2016
Beginning MV	\$267,192,077
Change in cash	\$3,411,713
Change in MV	\$643,756
Ending MV	\$271,247,546

PORTFOLIO RECAP

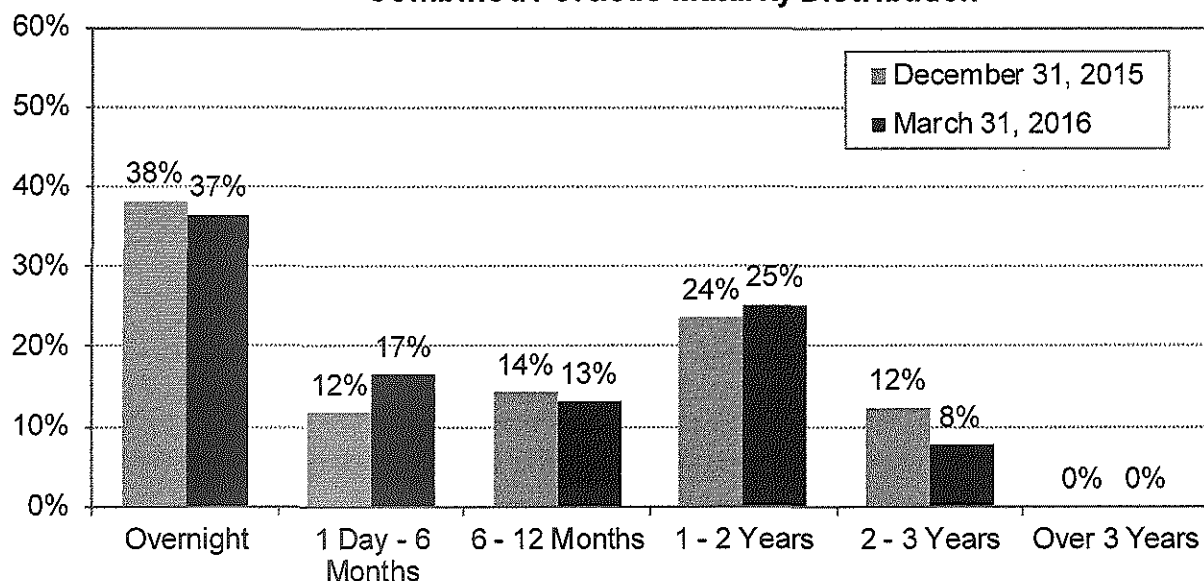
- The portfolio is in compliance with applicable state statutes and the City’s Investment Policy C-7.
- The portfolio has sufficient liquidity to cover upcoming needs, is diversified among high quality fixed-income sectors, and is of high credit quality.
- Falling interest rates resulted in positive performance for both the portfolio and its benchmark, the Bank of America Merrill Lynch 0-3 Year Treasury index. The City’s portfolio continues to deliver strong performance and outperform the benchmark as a result of:
 - Portfolio duration. The portfolio’s duration was managed to be slightly longer than the benchmark’s duration during the quarter. When interest rates fall, a longer duration strategy results in stronger total return performance.
 - Allocation to high-quality corporate notes. Corporate notes offer higher yields than Treasuries and agencies, increasing the portfolio’s earnings. In addition, yield spreads between corporates and Treasuries narrowed in March, resulting in the corporate sector outperforming Treasuries on a total return basis.
 - Security maturities. The portfolio, excluding overnight funds, has 40% of securities with maturities in the one to two year area of the curve. The steepness of the curve in this area continues to benefit the City, as securities here have higher yields than shorter maturities, and have the potential for additional return through roll down.

1. Values as of quarter end, including accrued interest

Combined Portfolio Change Over Quarter

Security Type	Change in Allocation
U.S. Treasuries	-2%
Federal Agencies	-5%
Municipal Obligations	-
Commercial Paper	+8%
Corporate Notes	-
LGIP	+1%
Collateralized Deposit Accounts	-2%

Combined Portfolio Maturity Distribution



Operating Portfolio Total Return Performance

Total Return ^{1,2,3,4,5}	Total Return for Quarter Ended March 31, 2016	Total Return for Past 1 Year	Total Return for Past 2 Years	Total Return Since Inception
City of Salem Operating Portfolio	0.74%	0.83%	0.80%	0.67%
Bank of America Merrill Lynch 0-3 Year U.S. Treasury Index	0.67%	0.72%	0.72%	0.57%
Effective Duration	March 31, 2016	December 31, 2015		
City of Salem Operating Portfolio	1.39	1.42		
Bank of America Merrill Lynch 0-3 Year U.S. Treasury Index	1.34	1.35		

Notes:

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis.
4. Inception date is December 31, 2012.
5. Excludes Special Purpose and Streets & Bridges accounts as well as LGIP and bank balances in the performance and duration calculations.

Combined Portfolio Transactions¹

Trade Date	Trade Type	Security	Maturity Date	Broker	Par Value	Yield to Maturity	S&P Rating
1/14/2016	Buy	Bank of Tokyo Mitsubishi NY Commercial Paper	5/25/2016	Direct Issue	3,750,000	0.73%	A-1
1/14/2016	Buy	BNP Paribas NY Commercial Paper	5/25/2016	Direct Issue	3,750,000	0.67%	A-1
1/14/2016	Buy	Rabobank Nederland NV NY Commercial Paper	5/9/2016	Barclays Capital Inc.	3,750,000	0.65%	A-1
1/14/2016	Sell	FHLB Discount Notes	5/27/2016	FTN Financial	5,205,000	0.46%	AA+
1/14/2016	Sell	FNMA Notes	3/30/2016	Goldman, Sachs & Co.	5,000,000	0.37%	AA+
1/14/2016	Sell	FHLMC Notes	4/18/2016	BMO Capital Markets Corp	1,000,000	0.43%	AA+
1/27/2016	Buy	Credit Agricole NY Commercial Paper	4/28/2016	Direct Issue	3,750,000	0.64%	A-1
1/27/2016	Buy	UBS Finance Delaware LLC Commercial Paper	6/27/2016	Direct Issue	3,750,000	0.67%	A-1
3/23/2016	Buy	U.S. Treasury Notes	1/15/2019	Citigroup Global Markets Inc	2,195,000	1.04%	AA+
3/23/2016	Buy	Bank of Tokyo Mitsubishi NY Commercial Paper	9/26/2016	Direct Issue	750,000	0.90%	A-1
3/23/2016	Buy	BNP Paribas NY Commercial Paper	12/16/2016	Direct Issue	750,000	1.02%	A-1
3/23/2016	Buy	Rabobank Nederland NV NY Commercial Paper	9/30/2016	Direct Issue	750,000	0.86%	A-1
3/23/2016	Buy	JP Morgan Securities LLC Commercial Paper	12/16/2016	Direct Issue	750,000	1.00%	A-1
3/23/2016	Buy	Toyota Motor Credit Corp Commercial Paper	12/16/2016	Direct Issue	750,000	1.03%	A-1+
3/23/2016	Sell	U.S. Treasury Notes	6/30/2016	Nomura Securities International, Inc.	1,630,000	0.37%	AA+
3/23/2016	Sell	U.S. Treasury Notes	6/30/2016	Nomura Securities International, Inc.	2,075,000	0.37%	AA+
3/24/2016	Call	FHLB Notes	3/24/2016	-	2,200,000	-	AA+
3/31/2016	Maturity	U.S. Treasury Notes	3/31/2016	-	1,090,000	-	AA+

1. Does not include transactions in the LGIP and bank accounts

Combined Portfolio Holdings by Maturity

Issuer	CUSIP	Par Value ¹	Maturity Date	Call Date	S&P Rating	Market Value ²	Yield to Maturity ³
LGIP - City		45,908,070				45,908,070	0.75%
LGIP - URA		36,799,267				36,799,268	0.75%
U.S. Bank		16,402,798				16,402,798	0.50%
Credit Agricole CIB NY	22533TDU7	3,750,000	4/28/2016		A-1	3,748,751	0.63%
Rabobank Nederland NV NY	21687AE90	3,750,000	5/9/2016		A-1	3,748,290	0.64%
Google Inc Global Notes	38259PAC6	2,155,000	5/19/2016		AA	2,175,918	0.59%
Bank of Tokyo Mitsubishi, U.S.	06538BER0	3,750,000	5/25/2016		A-1	3,747,353	0.72%
BNP Paribas NY	09659BER7	3,750,000	5/25/2016		A-1	3,747,319	0.66%
Federal Home Loan Bank	313384XJ3	16,795,000	5/27/2016		A-1+	16,787,229	0.58%
UBS Finance Delaware LLC	90262CFT9	3,750,000	6/27/2016		A-1	3,744,728	0.66%
U.S. Treasury	912828QR4	2,165,000	6/30/2016		AA+	2,179,593	0.78%
Washington State	93974DBN7	400,000	8/1/2016		AA+	408,985	0.80%
JP Morgan Chase & Co	46640PHC0	750,000	8/12/2016		A-1	748,345	0.78%
JP Morgan Chase & Co	46640PHC0	3,750,000	8/12/2016		A-1	3,741,724	0.78%
U.S. Treasury	912828RF9	280,000	8/31/2016		AA+	280,933	0.59%
U.S. Treasury	912828VW7	1,500,000	9/15/2016		AA+	1,503,536	0.56%
Bank of Tokyo Mitsubishi, U.S.	06538BJS3	750,000	9/26/2016		A-1	746,729	0.88%
Rabobank Nederland NV NY	21687AJW4	750,000	9/30/2016		A-1	746,783	0.84%
U.S. Treasury	912828RJ1	2,058,000	9/30/2016		AA+	2,063,843	0.89%
U.S. Treasury	912828RJ1	600,000	9/30/2016		AA+	601,704	0.71%
U.S. Treasury	912828WA4	2,490,000	10/15/2016		AA+	2,499,619	0.66%
U.S. Treasury	912828RM4	2,000,000	10/31/2016		AA+	2,014,423	0.75%
Coca-Cola Co	191216BC3	2,400,000	11/1/2016		AA-	2,403,161	0.31%
Procter & Gamble	742718ED7	1,510,000	11/4/2016		AA-	1,515,085	0.66%
Procter & Gamble	742718ED7	2,990,000	11/4/2016		AA-	3,000,069	0.67%

1. End of quarter trade-data par values of portfolio holdings.

2. End of quarter trade-data market values of portfolio holdings including accrued interest.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

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Combined Portfolio Holdings by Maturity

Issuer	CUSIP	Par Value ¹	Maturity Date	Call Date	S&P Rating	Market Value ²	Yield to Maturity ³
U.S. Treasury	912828WF3	1,500,000	11/15/2016		AA+	1,504,726	0.61%
U.S. Treasury	912828WF3	3,750,000	11/15/2016		AA+	3,761,814	0.61%
BNP Paribas NY	09659BMG2	750,000	12/16/2016		A-1	744,562	1.01%
JP Morgan Chase & Co	46640PMG5	750,000	12/16/2016		A-1	745,288	0.99%
Toyota Motor Corp	89233GMG8	750,000	12/16/2016		A-1+	745,060	1.02%
U.S. Treasury	912828RX0	5,000,000	12/31/2016		AA+	5,021,798	0.61%
U.S. Treasury	912828RX0	1,000,000	12/31/2016		AA+	1,004,360	0.83%
U.S. Treasury	912828SC5	3,150,000	1/31/2017		AA+	3,161,634	0.65%
U.S. Treasury	912828SM3	3,000,000	3/31/2017		AA+	3,011,098	0.79%
U.S. Treasury	912828SM3	1,000,000	3/31/2017		AA+	1,003,699	0.95%
General Electric Co	36962G5W0	2,500,000	4/27/2017		AA+	2,563,097	1.18%
Federal National Mortgage Association	3135G0JA2	3,000,000	4/27/2017		AA+	3,028,493	0.81%
U.S. Treasury	912828K66	7,500,000	4/30/2017		AA+	7,504,632	0.51%
U.S. Treasury	912828K66	745,000	4/30/2017		AA+	745,460	0.51%
U.S. Treasury	912828WH9	5,000,000	5/15/2017		AA+	5,028,502	0.78%
Toyota Motor Credit Corp	89233P6D3	2,800,000	5/22/2017		AA-	2,840,003	1.18%
Federal Home Loan Mortgage Corporation	3137EADH9	3,000,000	6/29/2017		AA+	3,016,592	0.94%
Federal Home Loan Mortgage Corporation	3137EADH9	675,000	6/29/2017		AA+	678,733	1.10%
U.S. Treasury	912828WT3	7,445,000	7/15/2017		AA+	7,476,812	0.72%
U.S. Treasury	912828WT3	983,000	7/15/2017		AA+	987,200	0.72%
U.S. Treasury	912828NR7	3,400,000	7/31/2017		AA+	3,488,971	1.00%
U.S. Treasury	912828TG5	4,000,000	7/31/2017		AA+	3,993,508	0.71%
Federal Home Loan Mortgage Corporation	3137EADL0	225,000	9/29/2017		AA+	225,830	1.22%
U.S. Treasury	912828TS9	2,500,000	9/30/2017		AA+	2,496,820	1.06%
U.S. Treasury	912828G20	5,000,000	11/15/2017		AA+	5,029,087	0.97%

1. End of quarter trade-data par values of portfolio holdings.

2. End of quarter trade-data market values of portfolio holdings including accrued interest.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

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Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value ¹	Maturity Date	Call Date	S&P Rating	Market Value ²	Yield to Maturity ³
Johnson & Johnson	478160BL7	1,560,000	11/21/2017		AAA	1,575,176	1.15%
Chevron Corp	166764AA8	2,000,000	12/5/2017	11/5/2017	AA-	2,003,651	1.15%
Federal National Mortgage Association	3135G0RT2	255,000	12/20/2017		AA+	256,030	1.32%
U.S. Treasury	912828UE8	930,000	12/31/2017		AA+	932,090	1.17%
U.S. Treasury	912828UJ7	2,000,000	1/31/2018		AA+	2,008,089	1.08%
IBM Corp	459200HZ7	2,500,000	2/6/2018		AA-	2,508,809	1.23%
Exxon Mobil Corp	30231GAL6	2,500,000	3/6/2018		AAA	2,513,493	1.31%
U.S. Treasury	912828UU2	7,500,000	3/31/2018		AA+	7,499,569	1.08%
U.S. Treasury	912828UZ1	5,500,000	4/30/2018		AA+	5,498,119	1.02%
U.S. Treasury	912828UZ1	5,750,000	4/30/2018		AA+	5,748,034	1.11%
Apple Inc Global Notes	037833AJ9	2,500,000	5/3/2018		AA+	2,515,430	1.34%
Berkshire Hathaway Inc	084664BW0	3,000,000	5/15/2018		AA	3,026,853	1.07%
Microsoft Corp	594918BF0	1,845,000	11/3/2018		AAA	1,872,801	1.33%
U.S. Treasury	912828N63	2,195,000	1/15/2019		AA+	2,217,371	1.04%
Total Value PFM Managed Funds		\$171,551,000				\$172,137,411	0.82%
LGIP		\$82,707,337				\$82,707,337	0.75%
Bank Balances		\$16,402,798				\$16,402,798	0.50%
Total Value All Funds		\$270,661,135				\$271,247,546	0.78%

1. End of quarter trade data par values of portfolio holdings.

2. End of quarter trade data market values of portfolio holdings including accrued interest.

3. LGIP yield is provided by OSTF website. U.S. Bank yield (before fees) is provided by the City.

PFM Asset Management LLC

Approved Broker/Dealer List

Fourth Quarter 2015

- * Barclays Capital Inc.
BB&T Capital Markets
- † Blaylock Robert Van LLC
- * BMO Capital Markets Corp
- * BNP Paribas Securities Corp.
BNY Capital Markets LLC
BOSC, Inc.
- † Cabrera Capital Markets LLC
- * Cantor Fitzgerald & Co.
- † CastleOak Securities
- * Citigroup Global Markets Inc.
- † C.L. King & Associates, Inc.
Commerz Markets LLC
Credit Agricole Securities (USA), Inc.
- * Credit Suisse Securities (USA) LLC
- * Daiwa Capital Markets America Inc.
- * Deutsche Bank Securities Inc.
- † Drexel Hamilton LLC
Fifth Third Securities, Inc.
FTN Financial
- * Goldman, Sachs & Co.
- * HSBC Securities (USA) Inc.
INTL FCStone Partners L.P.
Incapital LLC
- * Jefferies & Company, Inc.
- * J.P. Morgan Securities LLC
Keybanc Capital Markets
- † Loop Capital Markets LLC
MarketAxess Corporation
- * Merrill Lynch, Pierce, Fenner & Smith Inc.
Mesirow Financial, Inc.
Mitsubishi UFJ Securities (USA), Inc.
- * Mizuho Securities (USA), Inc.
- * Morgan Stanley & Co. LLC
- † Muriel Siebert & Co., Inc.
- * Nomura Securities International, Inc.
PNC Capital Markets LLC
- * RBC Capital Markets LLC
- * RBS Securities Inc.
Scotia Capital (USA), Inc.
- † Siebert Brandford Shank & Co. LLC
- * SG Americas Securities LLC
Southwest Securities Inc.
Stifel, Nicolaus & Company, Incorporated
SunTrust Robinson Humphrey, Inc.
Susquehanna Financial Group, LP
- * TD Securities (USA) LLC
Tradition Asiel Securities, Inc.
- † The Williams Capital Group, LP
- * UBS Securities LLC
U.S. Bancorp Investments, Inc.
Vining Sparks IBG, L.P.
Wells Fargo Securities LLC
Zions Direct, Inc.

* *Primary Government Securities Dealer*

† *Minority or woman owned business enterprise*

Note: Direct issuers of CP and CDs are considered to be approved counterparties if approved as an issuer.

Important Disclosures

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