



City of Salem

Quarterly Investment Report

Quarter Ended September 30, 2015



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Summary By Sector ¹	Amortized Cost	Market Value	% of Portfolio	Allowed by Policy
U.S. Treasuries	75,641,507	75,978,808	37%	100%
Federal Agencies	32,198,239	32,255,738	16%	100%
Municipal Obligations	417,254	418,862	<1%	10%
Corporate Notes	30,494,266	30,517,442	15%	15%
LGIP	47,465,845	47,465,845	23%	ORS limit
Collateralized Deposit Accounts	19,624,739	19,624,739	9%	100%
Total	\$205,841,850	\$206,261,434	100%	
Callable Securities	4,205,458	4,205,409	2%	25%

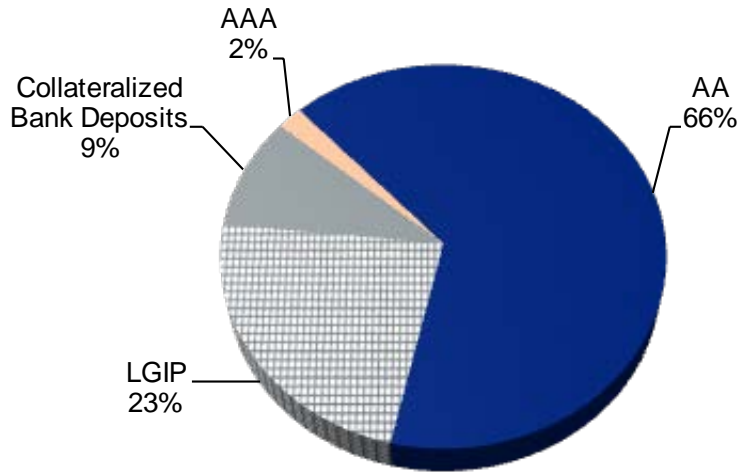
Combined Portfolio Statistics

Combined Portfolio Yield on Cost (9/30/2015)	0.73%
Weighted Average Maturity (9/30/2015)	1.01 years

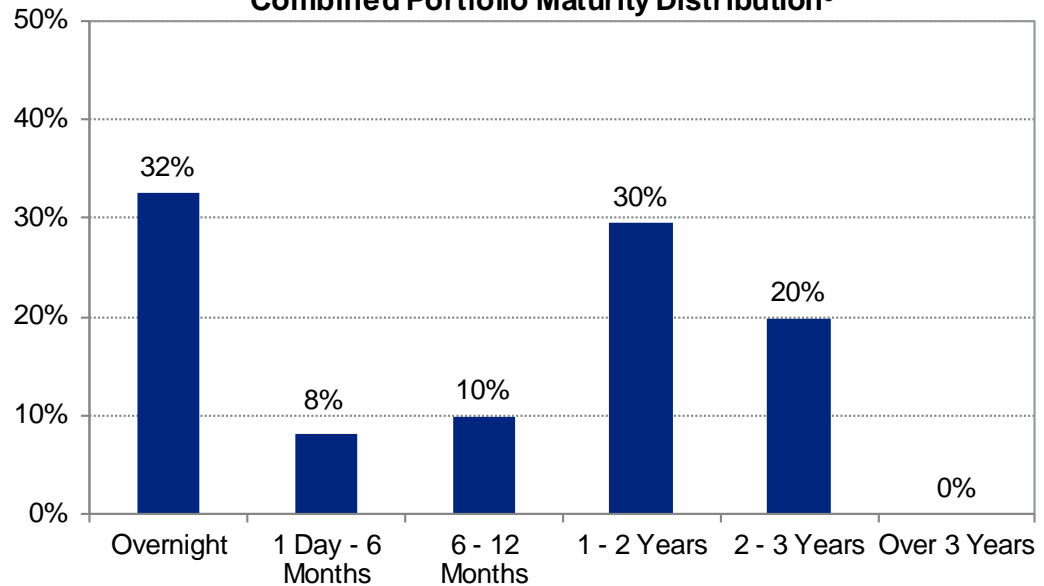
**Combined Portfolio Earnings
(excludes earnings on LGIP and deposit accounts)**

Cash Basis Earnings for Quarter	\$91,071
Accrual Basis Earnings for Quarter	\$290,602

Credit Quality Distribution²

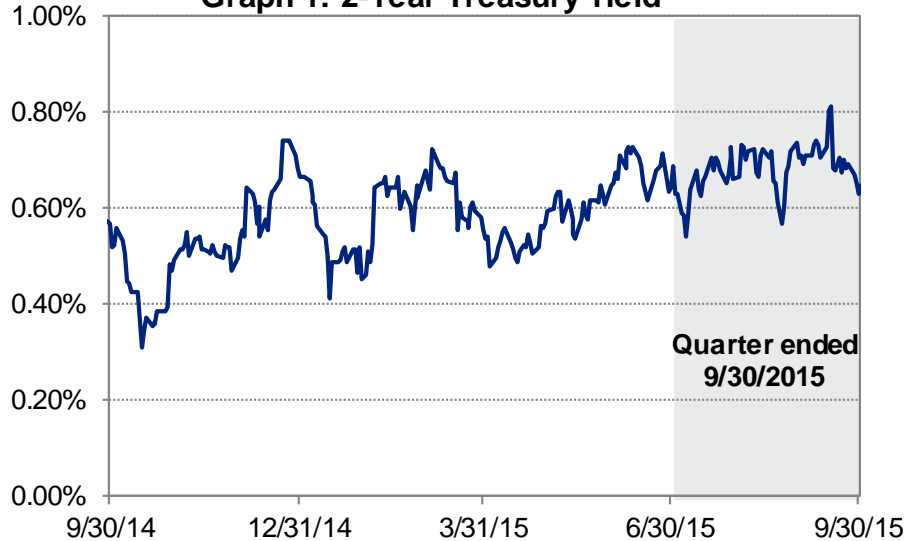


Combined Portfolio Maturity Distribution³



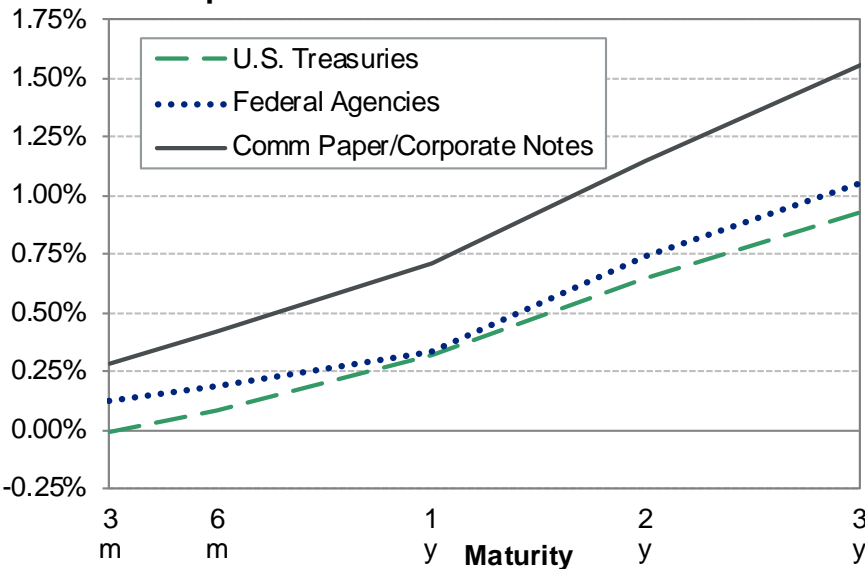
1. Values as of September 30, 2015, including accrued interest.
 2. Ratings by Standard & Poor's.
 3. Callable securities are included to their stated maturity dates.

Graph 1: 2-Year Treasury Yield



- Graph 1: Interest rates continued their volatile trend during the quarter ended September 30, 2015, although yields on securities with maturities under five years ended slightly higher than where they began.
 - Yields trended higher at the start of the quarter as signs of continued improvement in the U.S. economy and comments from Federal Reserve Chair Janet Yellen led the market to believe the Fed was poised to raise the federal funds target rate.
 - However, in August yields dropped sharply in response to China’s decision to devalue their currency to help their declining stock market.
 - The downward trend in rates continued in September due to global growth concerns and the decision by the Federal Reserve to leave the fed funds target rate unchanged at its September meeting.

Graph 2: Yield Curves as of 9/30/2015



- Graph 2: Graph 2 plots the yields of various sectors at different maturities as of September 30, 2015.
 - The yield difference, or spread, between Treasuries and Agencies remained very narrow.
 - Due to this spread relationship, all new purchases in the City’s portfolio were in the Treasury sector.
 - Corporate notes continued to offer an attractive spread over Treasuries and Agencies. The portfolio is taking full advantage of this value by maintaining its maximum allocation to corporate notes, as set by the City’s Investment Policy.

Source: Bloomberg

Combined Portfolio Summary¹

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Market Value (MV)	206,261,434	216,024,822	254,505,219	255,569,396
Amortized Cost	205,841,850	215,740,635	254,069,058	255,536,112

Quarterly Summary	Quarter Ending September 30, 2015
Beginning MV	\$216,024,822
Change in cash	(\$9,705,342)
Change in MV	(\$58,046)
Ending MV	\$206,261,434

PORTFOLIO RECAP

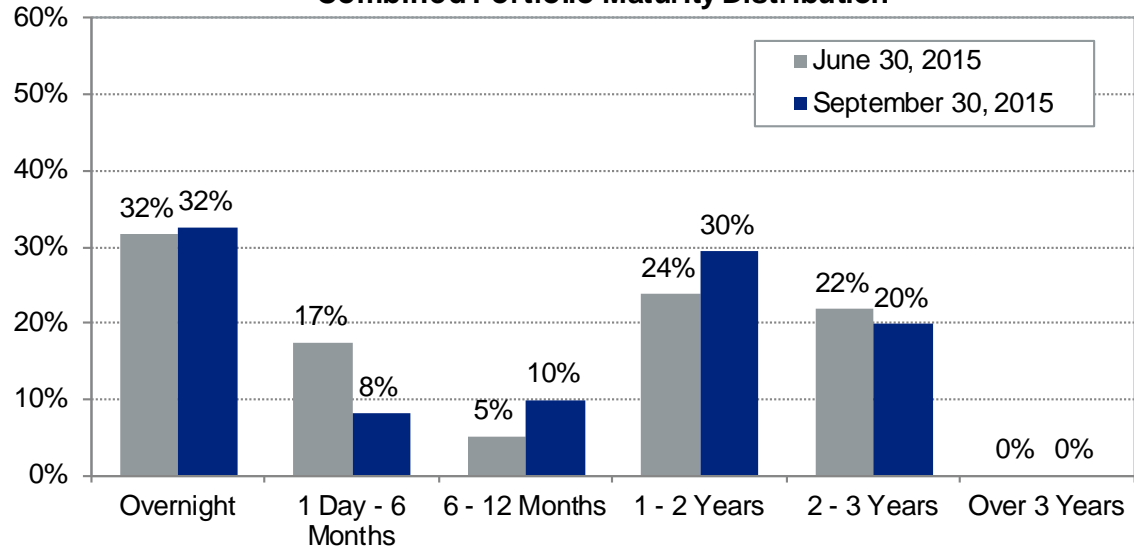
- The portfolio is in compliance with applicable state statutes and the City’s Investment Policy C-7.
- The portfolio has sufficient liquidity to cover upcoming needs, is diversified among high quality fixed-income sectors, and is of high credit quality.
- Activity during the quarter resulted in the portfolio maintaining its high level of safety and liquidity and achieving performance in excess of the benchmark.
 - PFM purchased three 2-year Treasury Notes on the City’s behalf that locked in yields near the top of their recent trading ranges and extended the portfolio’s duration in line with the target duration.
 - Due to the uncertainty of interest rates, PFM is managing the Operating Portfolio’s duration near that of the benchmark (the benchmark is the Bank of America Merrill Lynch 0-3 Year Treasury Index).
 - Before making any buys or sells, PFM communicates with the City to seek approval on recommendations and to inquire about liquidity needs. Two maturities during the past quarter were not reinvested; they were moved to the City’s overnight account to meet upcoming cash needs.
 - The yield-to-maturity at cost on the Operating Portfolio, excluding funds in the LGIP and collateralized deposit accounts, increased by 7 basis points (0.07%) over the past quarter, from 0.75% on June 30, 2015 to 0.81% on September 30, 2015.

1. Values as of quarter end, including accrued interest

Combined Portfolio Change Over Quarter

Security Type	Change in Allocation
U.S. Treasuries	+4%
Federal Agencies	-3%
Municipal Obligations	-1%
Corporate Notes	-1%
LGIP	-2%
Collateralized Deposit Accounts	+3%

Combined Portfolio Maturity Distribution



Operating Portfolio Total Return Performance

Total Return ^{1,2,3,4,5}	Total Return for Quarter Ended September 30, 2015	Total Return for Past 1 Year	Total Return for Past 2 Years	Total Return Since Inception
City of Salem Operating Portfolio	0.29%	0.91%	0.73%	0.63%
Bank of America Merrill Lynch 0-3 Year U.S. Treasury Index	0.24%	0.85%	0.62%	0.54%
Effective Duration	September 30, 2015	June 30, 2015		
City of Salem Operating Portfolio	1.47	1.41		
Bank of America Merrill Lynch 0-3 Year U.S. Treasury Index	1.43	1.38		

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
7/1/2015	Buy	U.S. Treasury Notes	7/15/2017	Barclays Capital, Inc.	7,445,000	0.72%	AA+
7/1/2015	Buy	U.S. Treasury Notes	7/15/2017	Barclays Capital, Inc.	983,000	0.72%	AA+
7/2/2015	Maturity	FNMA Notes	7/2/2015	-	7,500,000	-	-
7/2/2015	Maturity	FNMA Notes	7/2/2015	-	750,000	-	-
7/29/2015	Buy	U.S. Treasury Notes	7/31/2017	Merrill Lynch, Pierce, Fenner & Smith Incorporated	4,000,000	0.71%	AA+
7/30/2015	Maturity	JP Morgan Chase Notes	7/30/2015	-	4,000,000	-	-
8/1/2015	Maturity	WA State GO Bonds	8/1/2015	-	800,000	-	-
9/30/2015	Maturity	U.S. Treasury Notes	9/30/2015	-	8,000,000	-	-

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 ⁴	Market Value ²	Yield to Maturity ³
LGIP - City	-	21,064,740	-			21,064,740	0.54%
LGIP - URA	-	26,401,105	-			26,401,105	0.54%
U.S. Bank	-	19,624,739	-			19,624,739	0.50%
Federal National Mortgage Association	31398A4M1	7,500,000	10/26/2015		AA+	7,559,959	0.41%
Federal National Mortgage Association	31398A4M1	750,000	10/26/2015		AA+	755,996	0.40%
Federal Home Loan Mortgage Corporation	3134A4VG6	7,500,000	11/17/2015		AA+	7,676,817	0.40%
Federal Home Loan Mortgage Corporation	3134A4VG6	750,000	11/17/2015		AA+	767,682	0.39%
Federal National Mortgage Association	3135G0VA8	5,000,000	3/30/2016		AA+	5,006,499	0.55%
U.S. Treasury	912828KT6	1,090,000	3/31/2016		AA+	1,101,950	0.65%
Federal Home Loan Mortgage Corporation	3137EAAD1	1,000,000	4/18/2016		AA+	1,051,011	0.48%
Google Inc Global Notes	38259PAC6	4,000,000	5/19/2016		AA	4,072,727	0.59%
U.S. Treasury	912828QR4	3,795,000	6/30/2016		AA+	3,843,727	0.78%
U.S. Treasury	912828QR4	2,075,000	6/30/2016		AA+	2,101,643	0.60%
Washington State	93974DBN7	400,000	8/1/2016		AA+	418,861	0.80%
U.S. Treasury	912828RF9	280,000	8/31/2016		AA+	281,803	0.59%
U.S. Treasury	912828RJ1	2,058,000	9/30/2016		AA+	2,070,517	0.89%
U.S. Treasury	912828RJ1	600,000	9/30/2016		AA+	603,649	0.71%
U.S. Treasury	912828WA4	2,490,000	10/15/2016		AA+	2,502,861	0.66%
Coca-Cola Co	191216BC3	2,400,000	11/1/2016		AA	2,400,682	0.31%
Procter & Gamble	742718ED7	1,510,000	11/4/2016		AA-	1,516,636	0.66%
Procter & Gamble	742718ED7	2,990,000	11/4/2016		AA-	3,003,140	0.67%
U.S. Treasury	912828RX0	5,000,000	12/31/2016		AA+	5,036,121	0.61%
U.S. Treasury	912828RX0	1,000,000	12/31/2016		AA+	1,007,224	0.83%
U.S. Treasury	912828SC5	3,150,000	1/31/2017		AA+	3,170,967	0.65%
Federal Home Loan Bank	3130A4QV7	2,200,000	3/24/2017	3/24/2016	AA+	2,206,310	0.84%
U.S. Treasury	912828SM3	3,000,000	3/31/2017		AA+	3,021,958	0.79%
U.S. Treasury	912828SM3	1,000,000	3/31/2017		AA+	1,007,319	0.95%
General Electric Co	36962G5W0	2,500,000	4/27/2017		AA+	2,575,747	1.18%
Federal National Mortgage Association	3135G0JA2	3,000,000	4/27/2017		AA+	3,039,356	0.81%

Continued on next page

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.

Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value ¹	Maturity Date	Call Date	S&P Rating	Market Value ²	Yield to Maturity on Cost ³
U.S. Treasury	912828WH9	5,000,000	5/15/2017		AA+	5,041,850	0.78%
Toyota Motor Credit Corp	89233P6D3	2,800,000	5/22/2017		AA-	2,847,154	1.18%
Federal Home Loan Mortgage Corporation	3137EADH9	3,000,000	6/29/2017		AA+	3,028,133	0.94%
Federal Home Loan Mortgage Corporation	3137EADH9	675,000	6/29/2017		AA+	681,330	1.10%
U.S. Treasury	912828WT3	7,445,000	7/15/2017		AA+	7,493,807	0.72%
U.S. Treasury	912828WT3	983,000	7/15/2017		AA+	989,444	0.72%
U.S. Treasury	912828NR7	3,400,000	7/31/2017		AA+	3,523,353	1.00%
U.S. Treasury	912828TG5	4,000,000	7/31/2017		AA+	3,995,974	0.71%
Federal Home Loan Mortgage Corporation	3137EADL0	225,000	9/29/2017		AA+	226,374	1.22%
U.S. Treasury	912828TS9	2,500,000	9/30/2017		AA+	2,498,870	1.06%
U.S. Treasury	912828G20	5,000,000	11/15/2017		AA+	5,034,235	0.97%
Johnson & Johnson	478160BL7	1,560,000	11/21/2017		AAA	1,576,375	1.15%
Chevron Corp	166764AA8	2,000,000	12/5/2017	11/5/2017	AA	1,999,099	1.15%
Federal National Mortgage Association	3135G0RT2	255,000	12/20/2017		AA+	256,272	1.32%
U.S. Treasury	912828UE8	930,000	12/31/2017		AA+	932,151	1.17%
U.S. Treasury	912828UJ7	2,000,000	1/31/2018		AA+	2,008,260	1.08%
IBM Corp	459200HZ7	2,500,000	2/6/2018		AA-	2,498,247	1.23%
Exxon Mobil Corp	30231GAL6	2,500,000	3/6/2018		AAA	2,508,166	1.31%
U.S. Treasury	912828UU2	7,500,000	3/31/2018		AA+	7,489,414	1.08%
U.S. Treasury	912828UZ1	5,500,000	4/30/2018		AA+	5,486,170	1.02%
U.S. Treasury	912828UZ1	5,750,000	4/30/2018		AA+	5,735,542	1.11%
Apple Inc Global Notes	037833AJ9	2,500,000	5/3/2018		AA+	2,498,603	1.34%
Berkshire Hathaway Inc	084664BW0	3,000,000	5/15/2018		AA	3,020,868	1.07%
Total Value PFM Managed Funds		138,061,000				\$139,170,850	0.82%
LGIP		47,465,845				\$47,465,845	0.54%
Bank Balances		19,624,739				\$19,624,739	0.50%
Total Value All Funds		\$205,151,584				\$206,261,434	0.73%

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.