

Treasury Group

To: Deborah Kafoury – Chair, Board of County Commissioners
Marissa Madrigal - Chief Operating Officer
Investment Advisory Board Members (IAB)
Mark Campbell – Chief Financial Officer
Steve March - County Auditor

From: Jeff DeCosta, County Treasury

Date: October 10, 2018

Re: Investment Portfolio Results for September 2018

The County Investment Pool's annualized earnings rate for September was 1.91%. This was a nine basis point increase from the previous month's return of 1.82%. The year-to-date rate of return for Fiscal Year 2019 increased four basis points to 1.81%.

The U.S. Treasury 90-day T-Bill yield at the end of September was 2.19%. This was an eight basis point increase from August 31st.

The annualized earnings rate for the State's Local Government Investment Pool was 2.25%.

The unemployment rate fell from 3.9% to 3.7% in September, a level not seen since December 1969. The financial markets have fully discounted another rate increase in December. Amazon's announcement of a \$15 minimum wage for its workers is emblematic of a tightening labor market. The new trade agreement forged with Canada and Mexico took some sting out of mounting trade fears.

For questions and suggestions regarding this report, please call me at (503) 988-7471 or email at: jeffrey.decosta@multco.us



GOVERNMENT
PORTFOLIO
ADVISORS

Executive Summary

Month-End 09/30/18



Investment Program

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MONTH END COMMENTARY- SEPTEMBER 2018

Who are you going to believe? The FOMC or the fixed income markets. As expected, on September 26, the FOMC raised the fed funds rate 25 basis points to a new fed funds range of 2% to 2.25%. The FOMC also reiterated their expectations to raise fed funds again in December along with three more increases in 2019. The fixed income market was little changed on the announcement and continues to defy the Fed's expectations for future increases. The futures market is pricing in a 70% probability of another increase in December, but only a 46% chance of another rate increase on March 20. The FOMC board members have fed funds priced at 3.125% at the end of 2019 and 3.375% at the end of 2020. If fixed income investors were in agreement with the Fed, the futures market would be pricing in a higher probability for 2019 rate hikes. Either market rates need to rise to meet Fed expectations, or the Fed needs to moderate their future fed fund expectations.

The two-year treasury increased in yield by 19 basis points during September and ended the month at a decade high of 2.82%. This ended four months of sideways trading for the two-year treasury and September's increase in yield was the largest monthly increase since April's rise of 23 basis points. The increase in yields were the result of continued economic strength and growth in inflation. The monthly growth in payrolls continued to be strong during the month with a growth of 201,000 and an unemployment rate of 3.9%. Average hourly earnings increased to 2.9% while the CPI rose to 2.7% YOY. The Fed's preferred rate of inflation is the Core PCE which was announced at 2% YOY. This rate is at the Fed's target level and is close to its six year high of 2.1% YOY. The recent growth in inflation is putting pressure on the curve to reverse some of the recent flattening with longer issues rising more in yield than shorter issues. This change in curve direction will be important to follow over the next several months.

STRATEGY GOING FORWARD:

GPA expects the gradual increase in interest rates to continue along the path well communicated by the FOMC. Market rates should continue to rise moderately to meet the Fed's expectations. The FOMC has a strong desire to move rates closer to their perceived neutral rate of 3% to 3.5%. It would take a significant slowing in economic momentum for the Fed to slow their expected rate increases. As such, with many securities yielding close to 3% we are suggesting that short fixed income investors continue to maintain their portfolio durations slightly defensive to higher rates with a range of 90% to 100% of their benchmark durations. We find the two-year note is attractive relative to the one-year bill with spreads close to 25 basis points. Absent an acceleration in inflation we expect to increase our positions in two year and longer securities as yields start to surpass the 3% to 3.5% levels.

TREASURY YIELD CURVE TOTAL RETURNS LAST 12 MONTHS:*

3month bill	1.616
1 year note	1.081
2 year note	-0.156
3 year note	-1.104
5 year note	-2.028

TREASURY BENCHMARK TOTAL RETURNS LAST MONTH*

Benchmark	Period Return	Duration
BAML 0-3 Year Treasury	-0.04%	1.40
BAML 1-3 Year Treasury	-0.12%	1.85
BAML 0-5 Year Treasury	-0.19%	2.15
BAML 1-5 Year Treasury	-0.28%	2.64

Changes in the Treasury Market (absolute yield levels): *

	9/30/2017	7/31/2018	8/31/2018	9/30/2018	Change from Last Month	Change from Prior Year
3 month bill	1.08	2.02	2.10	2.23	0.13	1.15
1 year note	1.36	2.19	2.45	2.57	0.12	1.21
2 year note	1.47	2.67	2.63	2.82	0.19	1.35
3 year note	1.61	2.77	2.69	2.88	0.19	1.27
5 year note	1.92	2.85	2.74	2.94	0.20	1.02
10 year note	2.33	2.96	2.86	3.06	0.20	0.73

Source: Bloomberg



Total Funds Multnomah County

Compliance Report

Policy 2018 | 09/30/2018

	Policy Requirement	% of Total Accumulated	Portfolio Allocation	Within Limits	S&P	Moody's
Under 30 days	10%	29%	\$ 124,696,911	Yes	Muni's AA-	Aa3
Under 1 year	35%	74%	\$ 314,612,452	Yes	Corp Bonds AA-	Aa3
Under 5 years	100%	100%	\$ 426,238,212	Yes	C P A-1	P-1
				Yes	B A A-1+	P-1
Maximum Weighted Average Maturity	2		0.82	Yes		
Maximum Callable Securities	25%	2%	\$ 9,808,530	Yes		
Maximum Single Maturity	5 Years		4.31	Yes	Policy states ONE rating meets requirement	

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value	% Within Limits	Ratings Compliance	Issuer Compliance
US Treasury Obligations	100%		20.58%	\$ 87,706,630	Yes		
US Agencies Primary	100%		46.46%	\$ 198,023,825	Yes		
FHLB		25%	12.86%	\$ 54,820,710	Yes		
FNMA		25%	8.10%	\$ 34,504,875	Yes		
FHLMC		25%	10.40%	\$ 44,339,810	Yes		
FFCB		25%	15.10%	\$ 64,358,430	Yes		
US Agencies Secondary	10%	10%	0.00%	\$ -			
Municipal Obligations OR, CA, ID, WA	10%	5%	0.49%	\$ 2,092,720	Yes		Yes
Corporate Bonds (No Fossil Fuel)	25%	5%	6.99%	\$ 29,813,970	Yes	Yes	Yes
Commercial Paper	10%	5%	3.50%	\$ 14,935,791	Yes	Yes	Yes
Bank Deposits	50%	25%	9.18%	\$ 39,147,123	Yes	N/A	N/A
Certificates of Deposit	20%	10%	0.52%	\$ 2,205,000	Yes	Yes	Yes
Bankers Acceptances	10%	5%	0.00%	\$ -			
Repurchase Agreements	10%	5%					
Reverse Repurchase Agreement	10%	5%	0.00%	\$ -			
OST Fund Pool	ORS 294.810 ***		12.27%	\$ 52,313,153	Yes*	**	**
Total			100%	\$ 426,238,212			

*** Current ORS Maximum

\$ 49,500,000.00

* ORS allows for OST Balances to be above limit during tax receipt periods.

** Ratings & Issuer restrictions do not apply to pool funds

Benchmark: BofA Merrill 0-3 year Treasury

STRATEGY OVERVIEW

Name	Par Amount	Total Adjusted Cost	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur
Multnomah County - Core Investment Fund	\$ 242,000,000	\$ 241,925,178	\$ 239,928,825	\$ (1,996,353)	1.77	1.29	1.40
Multnomah County CD Fund	\$ 2,205,000	\$ 2,205,000	\$ 2,205,000	\$ -	1.65	0.79	0.10
Multnomah County Liquidity	\$ 184,460,276	\$ 184,109,531	\$ 184,104,387	\$ (5,144)	2.02	0.11	0.10
TOTAL PORTFOLIO	\$ 428,665,276	\$ 428,239,709	\$ 426,238,212	\$ (2,001,497)	1.88	0.78	0.83



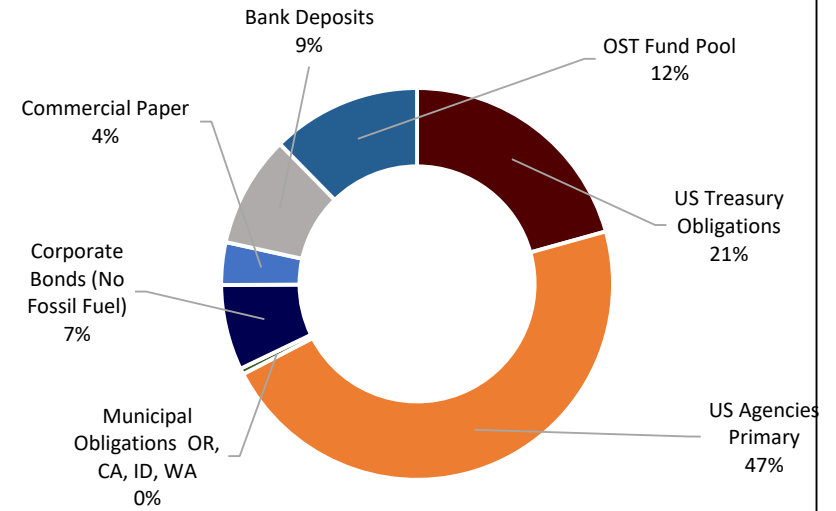
Total Funds Multnomah County

For Period September 01, 2018 - September 30, 2018

Investment Report

Policy 2018 | 09/30/2018

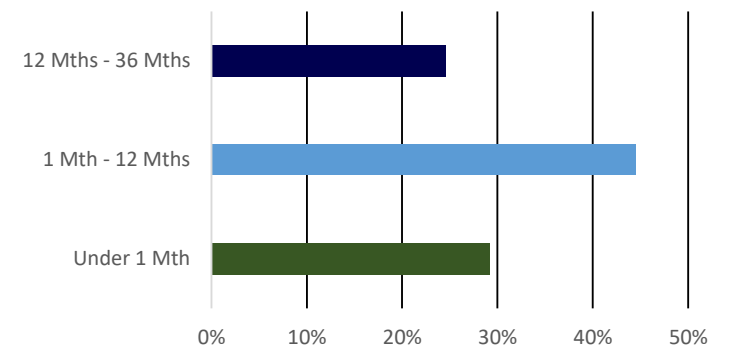
Investment Holdings at 09/30/2018	Market Value	% of Total Portfolio	Maximum Per Policy
US Treasury Obligations	\$ 87,706,630	20.58%	100%
US Agencies Primary	\$ 198,023,825	46.46%	100%
Municipal Obligations OR, CA, ID, WA	\$ 2,092,720	0.49%	10%
Corporate Bonds (No Fossil Fuel)	\$ 29,813,970	6.99%	25%
Commercial Paper	\$ 14,935,791	3.50%	10%
Bank Deposits	\$ 39,147,123	9.18%	50%
Certificates of Deposit	\$ 2,205,000	0.52%	20%
Bankers Acceptances	\$ -	-	10%
Repurchase Agreements	\$ -	-	10%
Reverse Repurchase Agreement	\$ -	-	10%
OST Fund Pool	\$ 52,313,153	12.27%	
Total Portfolio	\$ 426,238,212	100.00%	



% of Portfolio With One Issuer:			
Corporate Notes	\$ 14,949,630	3.51%	5%
State Obligations	\$ 2,092,720	0.49%	5%

MATURITY DISTRIBUTION

Maturities from 09/30/2018	Per Maturity Bucket		Cumulative	
	Market Value	% of Total Portfolio	% of Total Portfolio	Minimum Per Policy
Under 1 Mth	\$ 124,696,911	29%	29%	10%
1 Mth - 12 Mths	\$ 189,915,541	45%	74%	35%
12 Mths - 36 Mths	\$ 104,658,705	25%	98%	100%
36 Mths - 60 Mths	\$ 6,967,055	2%	100%	0%



Average Maturity on 09/30/2018	0.82 Years	Maximum Per Policy	5 Years
Average Maturity of portfolio (excluding bank / LGIP deposits)	1.30 Years		

ACTIVITY & PERFORMANCE SUMMARY

Activity Summary	This Month	Fiscal Year-to-Date
Beginning Amortized Cost	\$ 478,994,131	\$ 529,951,765
Investment purchases	\$ 24,817,105	\$ 86,325,103
Investment maturities and sales	\$ (53,000,000)	\$ (202,470,000)
Amortization	\$ 152,342	\$ 482,678
Net cash deposit (withdrawals)	\$ (22,723,869)	\$ 13,950,163
Realized Gain/Loss	\$ -	\$ -
Ending Amortized Costs	\$ 428,239,709	\$ 428,239,709
Market Value on 09/30/2018	\$ 426,238,212	

Performance Summary	This Month	Fiscal Year-to-Date
Amortization	\$ 152,342	\$ 482,678
Interest income	\$ 552,544	\$ 1,709,515
Realized gain (loss)	\$ -	\$ -
Total income	\$ 704,886	\$ 2,192,193
Average portfolio balance	\$ 452,401,749	\$ 482,887,539
Total Portfolio yield at cost on 09/30/2018	1.88%	
Investment Portfolio yield at cost (excluding bank / LGIP deposits)	1.77%	
Local Government Investment Pool interest rate	2.25%	



Portfolio Appraisal - Settled Trades

US Dollar
9/30/2018

Multnomah County - Core Investment Fund

Quantity	Symbol	Security	Unit Adj. Cost	Total Adjusted Cost	Price	Market Value	% Assets	Yield
US Agency (USD)								
10,000,000	3136G02M2	FEDERAL NATL MTG ASSN 1.180% Due 10-30-18	99.98	9,997,640.11	99.92	9,991,740.00	4.2	1.5
10,000,000	3133782M2	FEDERAL HOME LOAN BANKS 1.500% Due 03-08-19	100.23	10,023,278.68	99.63	9,963,130.00	4.2	1.0
10,000,000	3134G9AW7	FEDERAL HOME LN MTG CORP 1.150% Due 04-26-19	99.98	9,998,109.59	99.24	9,924,260.00	4.1	1.2
10,000,000	3133EF5X1	FEDERAL FARM CR BKS 1.100% Due 05-03-19	100.05	10,004,861.96	99.20	9,919,530.00	4.1	1.0
15,000,000	313379EE5	FEDERAL HOME LOAN BANKS 1.625% Due 06-14-19	100.50	15,075,583.27	99.37	14,905,515.00	6.2	0.9
15,000,000	3137EAEB1	FEDERAL HOME LN MTG CORP 0.875% Due 07-19-19	99.95	14,993,037.66	98.68	14,802,660.00	6.2	0.9
10,000,000	3136G3X67	FEDERAL NATL MTG ASSN 1.100% Due 08-23-19	100.00	10,000,000.00	98.66	9,866,400.00	4.1	1.1
15,000,000	3133EHYJ6	FEDERAL FARM CR BKS 1.375% Due 09-12-19	99.89	14,983,345.58	98.85	14,827,590.00	6.2	1.5
10,000,000	3137EAAE5	FEDERAL HOME LN MTG CORP 1.500% Due 01-17-20	99.99	9,998,581.92	98.44	9,843,990.00	4.1	1.5
10,000,000	3133EJNW5	FEDERAL FARM CR BKS 2.550% Due 05-15-20	99.85	9,984,734.69	99.60	9,959,790.00	4.2	2.6
10,000,000	3130ABPV2	FEDERAL HOME LOAN BANKS 1.690% Due 06-29-20	99.97	9,997,040.22	98.09	9,808,530.00	4.1	1.7
10,000,000	3135G0T60	FEDERAL NATL MTG ASSN 1.500% Due 07-30-20	99.83	9,982,908.80	97.72	9,772,400.00	4.1	1.6
5,000,000	3130ACE26	FEDERAL HOME LOAN BANKS 1.375% Due 09-28-20	97.56	4,878,159.64	97.18	4,859,225.00	2.0	2.6
10,000,000	3137EAEJ4	FEDERAL HOME LN MTG CORP 1.625% Due 09-29-20	97.98	9,797,611.76	97.69	9,768,900.00	4.1	2.7
10,000,000	3133EJAW9	FEDERAL FARM CR BKS 2.250% Due 01-29-21	99.52	9,952,103.16	98.62	9,862,290.00	4.1	2.5
10,000,000	3133EJCE7	FEDERAL FARM CR BKS 2.350% Due 02-12-21	99.16	9,915,821.73	98.76	9,875,930.00	4.1	2.7
10,000,000	3133EJEM7	FEDERAL FARM CR BKS 2.500% Due 03-01-21	99.82	9,982,192.43	99.13	9,913,300.00	4.1	2.6
15,000,000	313373ZY1	FEDERAL HOME LOAN BANKS 3.625% Due 06-11-21	102.01	15,301,107.69	101.90	15,284,310.00	6.4	2.8
5,000,000	3135G0T94	FEDERAL NATL MTG ASSN 2.375% Due 01-19-23	98.59	4,929,466.14	97.49	4,874,335.00	2.0	2.7
				199,795,585.02		198,023,825.00	82.5	1.78
Corporate (USD)								
5,000,000	478160BG8	JOHNSON & JOHNSON 1.650% Due 12-05-18	100.11	5,005,486.66	99.85	4,992,550.00	2.1	1.0
10,000,000	037833AQ3	APPLE INC 2.100% Due 05-06-19	100.32	10,031,541.74	99.75	9,974,590.00	4.2	1.6



Portfolio Appraisal - Settled Trades

US Dollar
9/30/2018

Multnomah County - Core Investment Fund

Quantity	Symbol	Security	Unit Adj. Cost	Total Adjusted Cost	Price	Market Value	% Assets	Yield
10,000,000	594918BN3	MICROSOFT CORP 1.100% Due 08-08-19	99.97	9,996,563.38	98.72	9,871,790.00	4.1	1.1
5,000,000	037833AR1	APPLE INC 2.850% Due 05-06-21	99.99	4,999,628.47	99.50	4,975,040.00	2.1	2.9
				30,033,220.25		29,813,970.00	12.4	1.55
Municipal (USD)								
2,000,000	93974CRA0	WASHINGTON ST 4.369% Due 08-01-22	104.90	2,097,958.96	104.64	2,092,720.00	0.9	3.0
				2,097,958.96		2,092,720.00	0.9	3.00
US Treasury (USD)								
10,000,000	912796QB8	UNITED STATES TREAS BILLS 0.000% Due 10-04-18	99.98	9,998,413.75	99.98	9,998,310.00	4.2	1.9
				9,998,413.75		9,998,310.00	4.2	1.94
Total Portfolio				241,925,177.98		239,928,825.00	100.0	1.77



Portfolio Appraisal - Settled Trades

US Dollar
9/30/2018

Multnomah County CD Fund

Quantity	Symbol	Security	Unit Adj. Cost	Total Adjusted Cost	Price	Market Value	% Assets	Yield
Bank or Cash Deposit (USD)								
245,000	SYS7456	WILLAMETTE VALLEY BANK CD 1.500% Due 10-25-18	100.00	245,000.00	100.00	245,000.00	11.1	1.5
245,000	SYS7458	SUMMIT BANK CD 1.230% Due 11-15-18	100.00	245,000.00	100.00	245,000.00	11.1	1.2
245,000	SYS7459	UMPQUA BANK CD 1.500% Due 11-20-18	100.00	245,000.00	100.00	245,000.00	11.1	1.5
245,000	SYS7502	UNITUS COMMUNITY CU CD 1.500% Due 07-24-19	100.00	245,000.00	100.00	245,000.00	11.1	1.5
245,000	SYS7505	PREMIER COMMUNITY BK (HERITAGE) CD 1.200% Due 08-01-19	100.00	245,000.00	100.00	245,000.00	11.1	1.2
245,000	SYS7509	HOMESTREET BANK CD 2.000% Due 09-18-19	100.00	245,000.00	100.00	245,000.00	11.1	2.0
245,000	SYS7510	WILLAMETTE COMMUNITY BK CD 2.000% Due 02-15-20	100.00	245,000.00	100.00	245,000.00	11.1	2.0
245,000	SYS7508	PACIFIC WEST BANK CD 2.000% Due 02-16-20	100.00	245,000.00	100.00	245,000.00	11.1	2.0
245,000	SYS7506	NORTHWEST COMMUNITY CU CD 1.900% Due 03-15-20	100.00	245,000.00	100.00	245,000.00	11.1	1.9
				2,205,000.00		2,205,000.00	100.0	1.65
Total Portfolio				2,205,000.00		2,205,000.00	100.0	1.65



Multnomah County Liquidity

Portfolio Appraisal - Settled Trades

US Dollar
9/30/2018

Quantity	Symbol	Security	Unit Adj. Cost	Total Adjusted Cost	Price	Market Value	% Assets	Yield
US Treasury (USD)								
8,000,000	912828T42	UNITED STATES TREAS NTS 0.750% Due 09-30-18	100.00	8,000,000.00	100.00	8,000,000.00	4.3	2.0
15,000,000	912828L81	UNITED STATES TREAS NTS 0.875% Due 10-15-18	99.96	14,994,061.28	99.96	14,993,325.00	8.1	1.9
10,000,000	912796QL6	UNITED STATES TREAS BILLS 0.000% Due 11-29-18	99.67	9,966,766.61	99.65	9,965,210.00	5.4	2.1
20,000,000	912796QN2	UNITED STATES TREAS BILLS 0.000% Due 12-13-18	99.58	19,916,297.39	99.57	19,913,760.00	10.8	2.1
25,000,000	912796QT9	UNITED STATES TREAS BILLS 0.000% Due 01-17-19	99.35	24,836,755.00	99.34	24,836,025.00	13.5	2.2
				77,713,880.28		77,708,320.00	42.2	2.09
LGIP State Pool (USD)								
52,313,153	OSTFLGIP	OREGON SHORT TERM FUND POOL 2.250% Due 10-29-18	100.00	52,313,152.87	100.00	52,313,152.87	28.4	2.3
				52,313,152.87		52,313,152.87	28.4	2.25
Bank or Cash Deposit (USD)								
10,957,989	SYSBADD1	BANK OF AMERICA 0.010% Due 10-29-18	100.00	10,957,988.73	100.00	10,957,988.73	6.0	0.0
16,787,092	SYSSSBMM1	UMPQUA BANK 2.000% Due 10-29-18	100.00	16,787,091.81	100.00	16,787,091.81	9.1	2.0
198,463	SYSUSB076	US BANK 0.010% Due 10-29-18	100.00	198,463.41	100.00	198,463.41	0.1	0.0
9,616,547	000WAFED	WASHINGTON FEDERAL MMF 2.000% Due 10-29-18	100.00	9,616,547.18	100.00	9,616,547.18	5.2	2.0
1,587,032	SYSWCBMM1	WILLAMETTE COMMUNITY BANK 1.750% Due 10-29-18	100.00	1,587,031.80	100.00	1,587,031.80	0.9	1.8
				39,147,122.93		39,147,122.93	21.3	1.43
Commercial Paper (USD)								
15,000,000	89233HM68	TOYOTA MOTOR CREDIT CP 0.000% Due 12-06-18	99.57	14,935,375.00	99.57	14,935,791.00	8.1	2.4
				14,935,375.00		14,935,791.00	8.1	2.43
Total Portfolio				184,109,531.08		184,104,386.80	100.0	2.02



Disclaimer

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Definition and Terms

Investment Report: Provides of summary asset allocation and maturity distribution. The activity and earnings summary provides a high level overview of the total funds.

Total Funds: This is the amount of the overall portfolio balances that are held in short term liquid investments to meet ongoing operational budgets and cash flows and investments held for longer periods. An annual assessment of the allocations to each component is evaluated through a cash flow process determining liquidity needs and District preferences, the Guideline Portfolio Strategy "GPS" is completed by Government Portfolio Advisors.

Compliance Report: Provides a comparison of the portfolio positions to the investment policy. This report includes a breakout of the specific funds and each allocation to the liquidity and investments.

Holdings Reports: Provides an overview by fund of portfolio distribution.

Security Type: Allocates the investment to a specific issuer type.

Par Value: The total face value of the investment at maturity.

Security Name: Lists the specific name of issuer.

Book Yield or Yield at Cost: Is the earning yield on each security at the time of purchase. The total is a weighting based on investment value.

Market Value: The current market value of the security based on a third party pricing source. This price represents the value if the securities were sold on the pricing date. The market value changes with interest rates.

Total Adjusted Cost: This may be referred to as "book value" and represents the cost basis to date after amortization of premiums or discounts since the purchase date.

Unrealized gain or loss: This represents the difference between the market value and the adjusted cost at the time of the report.

% of Portfolio: Represents the percent allocation dedicated to each security type in the fund.

Effective Duration: Represents the duration based on the time between the report date and the maturity of the bond. Duration is similar to average maturity and is used to measure the price sensitivity of the portfolio given interest rate changes.