

## 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: December 14, 2017

Re: Investment Portfolio Results for November 2017

The County Investment Pool's annualized earnings rate for November was 1.40%. This was a twenty-five basis point increase from the previous month's return of 1.15%. The year-to-date rate of return for Fiscal Year 2018 increased fourteen basis points to 1.18%.

The U.S. Treasury 90-day T-Bill yield at the end of November was 1.27%. This was a twelve basis point increase from October 31<sup>st</sup>.

The annualized earnings rate for the State's Local Government Investment Pool was 1.55%.

The economy added 228,000 new jobs in November, exceeding estimates of 200,000. Unemployment rate held steady at 4.1%, a 17-year low. The robust November employment data kept the Fed on course to hike the benchmark rate by 25 basis points to a new range of 1.25% to 1.50%. The combination of strong growth and a tightening job market is a recipe for higher inflation, heightening the odds of several more rate increases by the Fed next year.

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



GOVERNMENT  
PORTFOLIO  
ADVISORS

# Executive Summary

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Month-End 11/30/17



## Investment Program

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## MONTH END COMMENTARY – NOVEMBER 2017

Interest rates in the short end of the curve continued to rise during November. The Treasury yield curve has flattened, with long maturity yields falling modestly and shorter yields rising strongly. Sustained strength in the economy, job growth and expectations for tax reform are leading market participants to believe that the Fed will increase the Fed Funds target rate at their December meeting. The current Fed Funds futures contract is pricing in a 98% chance of a rate hike on 12/13/17. The Dow Jones reached an all-time high of 24,272 on the last day of the month with Stocks up more than 26% year to date.

**FOMC:** The next FOMC meeting is scheduled for December 12-13. The consensus is that we will see another rate hike at the December meeting. So far, the Fed has raised rates twice in 2017. According to outgoing Fed Chair Janet Yellen, “We are not seeing undue inflationary pressure in the labor market, so our policy remains accommodative.” However, she also added, “But we do think it’s important to gradually move our policy rate toward what I’ll call a neutral level, which would be consistent with sustainably strong labor market conditions.” The Fed’s view on general economic activity received an upgrade from “rising moderately to “rising at a solid rate”. The vote at the 11/1/17 meeting was 9-0 to keep the Fed Funds target range at 1.00% to 1.25%.

**New Federal Reserve Chairman:** The market’s perception is that the selection of Jerome Powell as the next Fed Chair largely signals continuity in monetary policy. The expectation is for a Federal Reserve Board that is much more hawkish than the previous Board. Expectations remain for three rate hikes in 2018.

**Reduction of the Fed’s Balance Sheet:** The Fed is continuing the tapering of its balance sheet which began in October. In the Fed’s statement, the committee mentioned the limited reaction in financial markets to the announcement and initial implementation of the Committee’s plan for gradually reducing the Fed’s holdings. It was noted that market participants had characterized the FOMC’s communications regarding the balance sheet normalization as clear and effective.

**Non-farm Payrolls/Unemployment:** Non-farm payrolls increased by 261,000 in October, below market expectations. The unemployment rate dropped to 4.1% which is the lowest level since December 2000. However, much of this drop has been attributed to the drop in the employment participation rate, down 0.4% to 62.7%. Overall, the data suggest the impacts of hurricanes Harvey and Irma was bad on employment, but not as bad as previously reported.

**GDP:** Third quarter GDP increased at an annual rate of 3.3%, the strongest quarterly gain in three years. Business investment is up, but consumer spending is showing few signs of improvement. Roughly one-third of the upward revision was attributable to hurricane-related trade and inventories, however these contributions may reverse in the fourth quarter. The producer price index remains strong at +0.4% vs. expectations of +0.1% with ex-food and energy +0.4% vs. +0.2% expectation.

**Strategy going forward:** In the past 90 days, the two-year treasury note has increased by 50 basis points from a yield of 1.30% to 1.80%. During this time GPA has suggested a defensive position to higher rates by managing portfolio durations at a range of 90% to 95% of benchmark durations. We continue to expect higher rates during the next two quarters but expect a slight slowing in the pace of those increases. Due to the expectation of higher rates in 2018, we will continue to advocate for a defensive portfolio duration posture. With the expected change in the pace of future interest rate increases, fixed income investors will find opportunities to extend their portfolio duration periodically on weakness. Earning yields in most short fixed income portfolios are increasing nicely, and we expect this trend to continue into 2018. Corporate credit spreads remain very tight, and GPA will continue to limit corporate credit to higher quality issues and with maturities limited to 2 years or shorter. The 2-year treasury is only yielding 36 basis points less than the five-year note and has provided more value than the five-year note since rates have risen. With the recent significant increase in yields, we have been slowly increasing exposure to the 3-5 year sector.

### Treasury Yield Curve Total Returns over the last 12 months:\*

3month bill	0.79
1 year note	0.61
2 year note	0.21
3 year note	0.44
5 year note	0.59

### TREASURY BENCHMARK TOTAL RETURNS IN MONTH\*

Benchmark	Period Return	Duration
BAML 0-3 Year Treasury	-0.12%	1.40
BAML 0-5 Year Treasury	-0.21%	2.15
BAML 1-3 Year Treasury	-0.20%	1.83
BAML 1-5 Year Treasury	-0.28%	2.63

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

	11/30/16	09/30/17	10/31/17	11/30/17	Change in November	Change from Prior Year
<b>3 month bill</b>	.48	1.05	1.13	1.26	+.13	+.78
<b>6 month bill</b>	.61	1.19	1.28	1.44	+.16	+.83
<b>2 year note</b>	1.12	1.49	1.60	1.78	+.18	+.66
<b>3 year note</b>	1.39	1.62	1.73	1.89	+.16	+.50
<b>5 year note</b>	1.84	1.94	2.02	2.14	+.12	+.30
<b>10 year note</b>	2.38	2.33	2.38	2.41	+.03	+.03

\*Source: Bloomberg



# Total Funds Multnomah County

# Compliance Report

Policy 2017 | 11/30/2017

	Policy Requirement	% of Total Accumulated	Portfolio Allocation	Within Limits	S&P	Moody's
Under 30 days	10%	70%	\$ 504,740,617	Yes	Muni's AA-	Aa3
Under 1 year	35%	81%	\$ 581,901,012	Yes	Corp Bonds AA-	Aa3
Under 5 years	100%	100%	\$ 720,787,472	Yes	C P A-1	P-1
				Yes	B A A-1+	P-1
Maximum Weighted Average Maturity	2		0.46	Yes		
Maximum Callable Securities	25%	3%	\$ 24,846,160	Yes		
Maximum Single Maturity	5 Years		2.67	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%		4.84%	\$ 34,877,925	Yes		
US Agencies Primary	100%		20.65%	\$ 148,831,300	Yes		
FHLB		25%	6.21%	\$ 44,788,425	Yes		
FNMA		25%	5.51%	\$ 39,680,120	Yes		
FHLMC		25%	5.49%	\$ 39,581,115	Yes		
FFCB		25%	3.44%	\$ 24,781,640	Yes		
US Agencies Secondary	10%	10%	0.00%	\$ -			
Municipal Obligations OR, CA, ID, WA	10%	5%	0.69%	\$ 4,997,750	Yes		Yes
Corporate Bonds (No Fossil Fuel)	25%	5%	3.45%	\$ 24,889,880	Yes	Yes	Yes
Commercial Paper	10%	5%					Yes
Bank Deposits	50%	25%	4.81%	\$ 34,669,042	Yes	N/A	N/A
Certificates of Deposit	20%	10%	0.34%	\$ 2,450,000	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 ***		65.22%	\$ 470,071,574	Yes*	**	**
<b>Total</b>			<b>100%</b>	<b>\$ 720,787,472</b>			

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

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

\*\*\* Current ORS Maximum \$ 48,333,000

## 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	\$ 210,000,000	\$ 210,189,058	\$ 208,599,105	\$ (1,589,953)	1.16	1.27	1.40
Multnomah County CD Fund	\$ 2,450,000	\$ 2,450,000	\$ 2,450,000	\$ -	1.04	0.71	0.10
Multnomah County Liquidity	\$ 509,740,617	\$ 509,747,245	\$ 509,738,367	\$ (8,878)	1.48	0.05	0.10
<b>TOTAL PORTFOLIO</b>	<b>\$ 722,190,617</b>	<b>\$ 722,386,303</b>	<b>\$ 720,787,472</b>	<b>\$ (1,598,831)</b>	<b>1.39</b>	<b>0.41</b>	<b>0.48</b>



# Total Funds Multnomah County

For Period November 01, 2017 - November 30, 2017

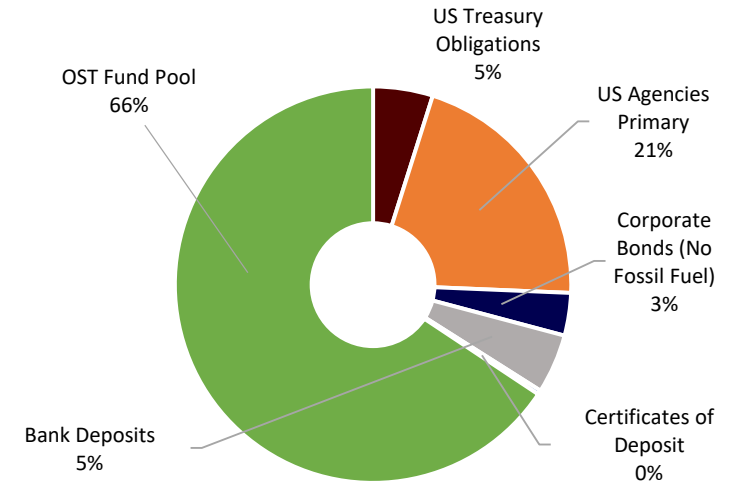
# Investment Report

Policy 2017 | 11/30/2017

Investment Holdings at 11/30/2017	Market Value	% of Total Portfolio	Maximum Per Policy
US Treasury Obligations	\$ 34,877,925	4.84%	100%
US Agencies Primary	\$ 148,831,300	20.65%	100%
Municipal Obligations OR, CA, ID, WA	\$ 4,997,750	0.69%	10%
Corporate Bonds (No Fossil Fuel)	\$ 24,889,880	3.45%	25%
Commercial Paper	\$ -		10%
Bank Deposits	\$ 34,669,042	4.81%	50%
Certificates of Deposit	\$ 2,450,000	0.34%	20%
Bankers Acceptances	\$ -		10%
Repurchase Agreements	\$ -		10%
Reverse Repurchase Agreement	\$ -		10%
OST Fund Pool	\$ 470,071,574	65.22%	
<b>Total Portfolio</b>	<b>\$ 720,787,472</b>	<b>100.00%</b>	

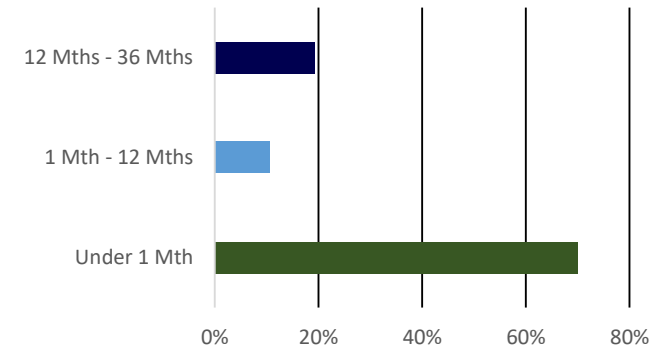
  

% of Portfolio With One Issuer:			
Corporate Notes	\$ 10,024,630	1.39%	5%
State Obligations	\$ 4,997,750	0.69%	5%



## MATURITY DISTRIBUTION

Maturities from 11/30/2017	Per Maturity Bucket		Cumulative	
	Market Value	% of Total Portfolio	% of Total Portfolio	Minimum Per Policy
Under 1 Mth	\$ 504,740,617	70%	70%	10%
1 Mth - 12 Mths	\$ 77,160,395	11%	81%	35%
12 Mths - 36 Mths	\$ 138,886,460	19%	100%	100%



Average Maturity on 11/30/2017  
Average Maturity of portfolio  
(excluding bank / LGIP deposits)

0.46 Years  
1.33 Years

Maximum Per Policy  
5 Years

## ACTIVITY & PERFORMANCE SUMMARY

Activity Summary	This Quarter	Fiscal Year-to-Date
Beginning Amortized Cost	\$ 419,357,461	\$ 409,412,858
Investment purchases	\$ 490,000	\$ 51,629,290
Investment maturities and sales	\$ (490,000)	\$ (160,450,000)
Amortization	\$ (8,860)	\$ (2,342)
Net cash deposit (withdrawals)	\$ 303,037,701	\$ 421,796,496
Realized Gain/Loss	\$ -	\$ -
<b>Ending Amortized Costs</b>	<b>\$ 722,386,303</b>	<b>\$ 722,386,303</b>
Market Value on 11/30/2017		\$ 720,787,472

Performance Summary	This Quarter	Fiscal Year-to-Date
Amortization	\$ (8,860)	\$ (2,342)
Interest income	\$ 1,133,803	\$ 2,347,134
Realized gain (loss)	\$ -	\$ -
<b>Total income</b>	<b>\$ 1,124,944</b>	<b>\$ 2,344,793</b>
Average portfolio balance	\$ 1,012,920,324	\$ 479,786,789
Total Portfolio yield at cost on 11/30/2017		1.39%
Investment Portfolio yield at cost (excluding bank / LGIP dep)		1.16%
Local Government Investment Pool interest rate		1.55%

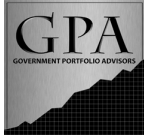


# Portfolio Appraisal - Settled Trades

US Dollar  
11/30/2017

## Multnomah County - Core Investment Fund

Quantity	Symbol	Security	Unit Adj. Cost	Total Adjusted Cost	Price	Market Value	% Assets	Yield
<b>US Agency (USD)</b>								
10,000,000	3135G0WJ8	FEDERAL NATL MTG ASSN 0.875% Due 05-21-18	99.95	9,995,280.92	99.72	9,972,280.00	4.8	1.0
5,000,000	3134G9G76	FEDERAL HOME LN MTG CORP 0.800% Due 06-29-18	99.95	4,997,528.58	99.56	4,978,010.00	2.4	0.9
10,000,000	3130A8PK3	FEDERAL HOME LOAN BANKS 0.625% Due 08-07-18	99.84	9,984,325.49	99.37	9,936,610.00	4.8	0.9
10,000,000	3136G02M2	FEDERAL NATL MTG ASSN 1.180% Due 10-30-18	99.73	9,972,853.70	99.48	9,947,820.00	4.8	1.5
10,000,000	3133782M2	FEDERAL HOME LOAN BANKS 1.500% Due 03-08-19	100.68	10,067,622.85	99.71	9,970,500.00	4.8	1.0
10,000,000	3134G9AW7	FEDERAL HOME LN MTG CORP 1.150% Due 04-26-19	99.95	9,995,333.33	99.14	9,914,390.00	4.8	1.2
10,000,000	3133EF5X1	FEDERAL FARM CR BKS 1.100% Due 05-03-19	100.12	10,011,765.37	99.01	9,901,010.00	4.7	1.0
15,000,000	313379EE5	FEDERAL HOME LOAN BANKS 1.625% Due 06-14-19	101.10	15,165,417.98	99.74	14,960,985.00	7.2	0.9
15,000,000	3137EAEB1	FEDERAL HOME LN MTG CORP 0.875% Due 07-19-19	99.91	14,985,767.32	98.49	14,772,825.00	7.1	0.9
10,000,000	3136G3X67	FEDERAL NATL MTG ASSN 1.100% Due 08-23-19	100.00	10,000,000.00	98.77	9,876,850.00	4.7	1.1
15,000,000	3133EHYJ6	FEDERAL FARM CR BKS 1.375% Due 09-12-19	99.79	14,968,722.75	99.20	14,880,630.00	7.1	1.5
10,000,000	3137EAEE5	FEDERAL HOME LN MTG CORP 1.500% Due 01-17-20	99.98	9,997,671.50	99.16	9,915,890.00	4.8	1.5
10,000,000	3130ABPV2	FEDERAL HOME LOAN BANKS 1.690% Due 06-29-20	99.96	9,995,624.18	99.20	9,920,330.00	4.8	1.7
10,000,000	3135G0T60	FEDERAL NATL MTG ASSN 1.500% Due 07-30-20	99.75	9,975,130.95	98.83	9,883,170.00	4.7	1.6
				<b>150,113,044.92</b>		<b>148,831,300.00</b>	<b>71.3</b>	<b>1.2</b>
<b>Corporate (USD)</b>								
5,000,000	478160BG8	JOHNSON & JOHNSON 1.650% Due 12-05-18	100.62	5,031,115.07	99.91	4,995,710.00	2.4	1.0
10,000,000	037833AQ3	APPLE INC 2.100% Due 05-06-19	100.76	10,075,733.09	100.25	10,024,630.00	4.8	1.6
10,000,000	594918BN3	MICROSOFT CORP 1.100% Due 08-08-19	99.93	9,993,204.11	98.70	9,869,540.00	4.7	1.1
				<b>25,100,052.27</b>		<b>24,889,880.00</b>	<b>11.9</b>	<b>1.3</b>



# Portfolio Appraisal - Settled Trades

US Dollar  
11/30/2017

Multnomah County - Core Investment Fund

Quantity	Symbol	Security	Unit Adj. Cost	Total Adjusted Cost	Price	Market Value	% Assets	Yield
<b>US Treasury (USD)</b>								
10,000,000	912828K25	UNITED STATES TREAS NTS 0.750% Due 04-15-18	99.91	9,990,955.51	99.78	9,977,730.00	4.8	1.0
10,000,000	912828VE7	UNITED STATES TREAS NTS 1.000% Due 05-31-18	100.04	10,004,428.86	99.77	9,976,950.00	4.8	0.9
15,000,000	912828S68	UNITED STATES TREAS NTS 0.750% Due 07-31-18	99.87	14,980,576.19	99.49	14,923,245.00	7.2	0.9
				<b>34,975,960.56</b>		<b>34,877,925.00</b>	<b>16.7</b>	<b>1.0</b>
<b>Total Portfolio</b>				<b>210,189,057.75</b>		<b>208,599,105.00</b>	<b>100.0</b>	<b>1.2</b>



### **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.