

## 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: January 11, 2018

Re: Investment Portfolio Results for December 2017

The County Investment Pool's annualized earnings rate for December was 1.38%. This was a two basis point decrease from the previous month's return of 1.40%. The year-to-date rate of return for Fiscal Year 2018 increased five basis points to 1.23%.

The U.S. Treasury 90-day T-Bill yield at the end of December was 1.39%. This was a twelve basis point increase from November 30<sup>th</sup>.

The annualized earnings rate for the State's Local Government Investment Pool was 1.70%.

December's labor report showed an increase of 148,000 jobs, about 50,000 below Wall Street expectations and well under the October and November increases of 211,000 and 252,000 respectively. 2017 marked the seventh consecutive year in which job growth exceeded 2 million new jobs. Highly unlikely 2018 will sustain this pace with the labor market close to full employment. The healthy economy and bolstering confidence among households should help drive consumption, the economy's main growth driver.

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

Month-End 12/31/17



## Investment Program

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## MONTH END COMMENTARY –DECEMBER 2017

Interest rates in the short end of the curve continued to rise during December. Good economic news, both domestically and abroad has contributed to the upward pressure on rates and the consensus is for additional rate hikes by the Fed. Yields on Treasuries were further supported by the passage of a sweeping tax reform package on 12/19/17. The Treasury yield curve has flattened, with long maturity yields falling modestly and shorter yields rising steadily.

**FOMC:** As expected, the Federal Reserve raised rates by 25 basis points from the range of 1% to 1.25% to a new Fed Funds target range of 1.25% to 1.50%. This is the fifth tightening since December 2015. The vote was 7-2 in favor of raising rates. In addition to raising the Fed Funds level, they also raised their economic forecast for 2018 and reiterated their expectations for three additional hikes over the next four quarters. The Fed also raised their economic growth forecast for next year. Economic growth for 2018 was forecasted to increase from a growth rate of 2.1% to a growth rate of 2.5%. Predictions for future rate hikes are mixed; the Dot Plot is indicating three hikes in 2018, Fed Funds futures predicts two and a survey of analysts has the consensus at four.

### 12/13/17 FOMC Meeting highlights:

- Change in language about the labor markets, shifted from its prior expectation that they would “strengthen somewhat further” to instead saying they would “remain strong.”
- Household spending was seen as expanding at a moderate rate, while business fixed investment was described as picking up in recent quarters.
- Regarding inflation, the Fed reiterated that the “near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.”
- Of the nine voting members of the FOMC, two dissented.

**Non-farm Payrolls/Unemployment:** Non-farm payrolls increased by 228,000 in November and private jobs increased 221,000, both above market expectations. The unemployment rate remained at 4.1% with participation unchanged at 62.7%. Average hourly earnings were up 0.2% vs. last month’s decline of -0.1%.

**GDP:** Third quarter GDP increased at an annual rate of 3.2%, according to the “third” estimate. In the second quarter, real GDP increased 3.1%.

**Retail Sales:** November retail sales surged .8% after an upward revision, from 0.2% to 0.5% in October.

**Durable Goods Orders:** November durable goods orders rose 1.3%, not as strong as expected, but still showing underlying strength.

**CPI:** The CPI rose 0.4% in November as energy prices rebounded. Core inflation was softer at 0.1%, but was held down by weakness in more volatile components like airfare, lodging and apparel.

**Strategy going forward:** GPA is still suggesting that portfolios maintain 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. 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. With the recent significant increase in yields, we have been slowly increasing exposure into the 3-5 year sector.

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

3month bill	0.86
1 year note	0.58
2 year note	0.19
3 year note	0.44
5 year note	0.72

### TREASURY BENCHMARK TOTAL RETURNS IN MONTH\*

Benchmark	Period Return	Duration
BAML 0-3 Year Treasury	0.04%	1.40
BAML 0-5 Year Treasury	0.02%	2.15
BAML 1-3 Year Treasury	0.01%	1.83
BAML 1-5 Year Treasury	-0.01%	2.63

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

	12/31/16	10/31/17	11/30/17	12/31/17	Change in December	Change from Prior Year
<b>3 month bill</b>	.50	1.13	1.26	1.38	+.12	+.88
<b>6 month bill</b>	.61	1.28	1.44	1.53	+.07	+.92
<b>2 year note</b>	1.19	1.60	1.78	1.88	+.10	+.69
<b>3 year note</b>	1.45	1.73	1.89	1.97	+.08	+.52
<b>5 year note</b>	1.93	2.02	2.14	2.20	+.06	+.27
<b>10 year note</b>	2.44	2.38	2.41	2.41	unch	-.03

\*Source: Bloomberg



# Total Funds Multnomah County

# Compliance Report

Policy 2017 | 12/31/2017

	Policy Requirement	% of Total Accumulated	Portfolio Allocation	Within Limits	S&P	Moody's
Under 30 days	10%	24%	\$ 186,055,909	Yes	Muni's AA-	Aa3
Under 1 year	35%	83%	\$ 636,704,955	Yes	Corp Bonds AA-	Aa3
Under 5 years	100%	100%	\$ 770,484,445	Yes	C P A-1	P-1
				Yes	B A A-1+	P-1
Maximum Weighted Average Maturity	2		0.56	Yes		
Maximum Callable Securities	25%	3%	\$ 24,837,400	Yes		
Maximum Single Maturity	5 Years		2.58	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%		39.04%	\$ 300,769,036	Yes		
US Agencies Primary	100%		37.17%	\$ 286,351,120	Yes		
FHLB		25%	15.91%	\$ 122,582,330	Yes		
FNMA		25%	10.33%	\$ 79,615,460	Yes		
FHLMC		25%	7.71%	\$ 59,399,990	Yes		
FFCB		25%	3.21%	\$ 24,753,340	Yes		
US Agencies Secondary	10%	10%	0.00%	\$ -			
Municipal Obligations OR, CA, ID, WA	10%	5%	0.65%	\$ 4,996,800	Yes		Yes
Corporate Bonds (No Fossil Fuel)	25%	5%	3.23%	\$ 24,878,130	Yes	Yes	Yes
Commercial Paper	10%	5%	1.94%	\$ 14,940,450	Yes	Yes	Yes
Bank Deposits	50%	25%	7.41%	\$ 57,055,966	Yes	N/A	N/A
Certificates of Deposit	20%	10%	0.32%	\$ 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 ***		10.26%	\$ 79,042,943	Yes*	**	**
<b>Total</b>			<b>100%</b>	<b>\$ 770,484,445</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	\$ 210,180,954	\$ 208,497,320	\$ (1,683,634)	1.16	1.31	1.40
Multnomah County CD Fund	\$ 2,450,000	\$ 2,450,000	\$ 2,450,000	\$ -	1.04	0.63	0.10
Multnomah County Liquidity	\$ 561,098,909	\$ 559,600,456	\$ 559,537,125	\$ (63,330)	1.43	0.28	0.10
<b>TOTAL PORTFOLIO</b>	<b>\$ 773,548,909</b>	<b>\$ 772,231,410</b>	<b>\$ 770,484,445</b>	<b>\$ (1,746,964)</b>	<b>1.35</b>	<b>0.56</b>	<b>0.45</b>



# Total Funds Multnomah County

For Period December 01, 2017 - December 31, 2017

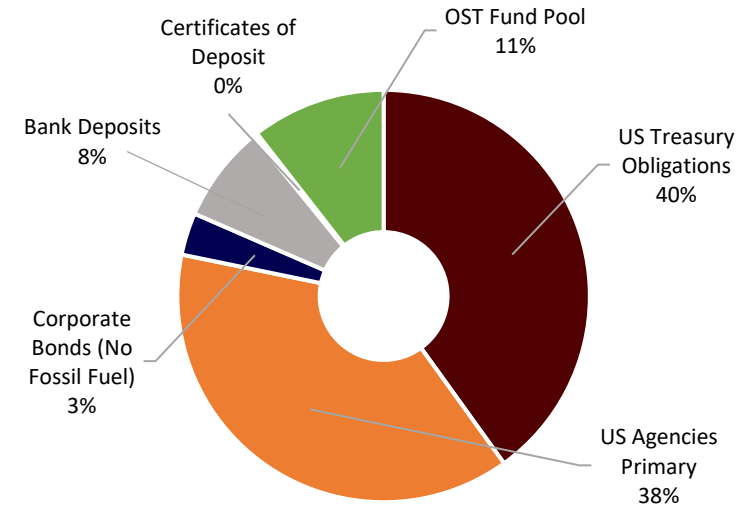
# Investment Report

Policy 2017 | 12/31/2017

Investment Holdings at 12/31/2017	Market Value	% of Total Portfolio	Maximum Per Policy
US Treasury Obligations	\$ 300,769,036	39.04%	100%
US Agencies Primary	\$ 286,351,120	37.17%	100%
Municipal Obligations OR, CA, ID, WA	\$ 4,996,800	0.65%	10%
Corporate Bonds (No Fossil Fuel)	\$ 24,878,130	3.23%	25%
Commercial Paper	\$ 14,940,450	1.94%	10%
Bank Deposits	\$ 57,055,966	7.41%	50%
Certificates of Deposit	\$ 2,450,000	0.32%	20%
Bankers Acceptances	\$ -		10%
Repurchase Agreements	\$ -		10%
Reverse Repurchase Agreement	\$ -		10%
OST Fund Pool	\$ 79,042,943	10.26%	
<b>Total Portfolio</b>	<b>\$ 770,484,445</b>	<b>100.00%</b>	

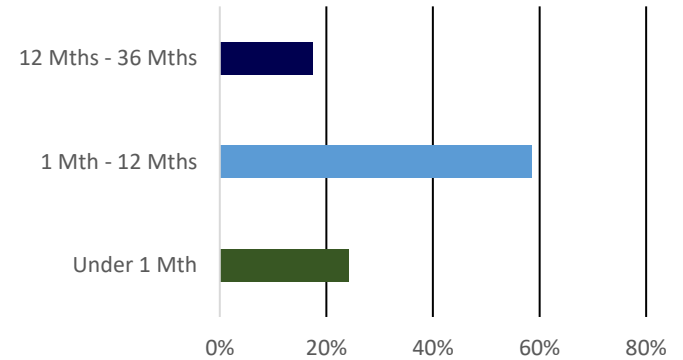
  

% of Portfolio With One Issuer:			
Corporate Notes	\$ 10,022,960	1.30%	5%
State Obligations	\$ 4,996,800	0.65%	5%



### MATURITY DISTRIBUTION

Maturities from 12/31/2017	Per Maturity Bucket		Cumulative	
	Market Value	% of Total Portfolio	% of Total Portfolio	Minimum Per Policy
Under 1 Mth	\$ 186,055,909	24%	24%	10%
1 Mth - 12 Mths	\$ 450,649,046	58%	83%	35%
12 Mths - 36 Mths	\$ 133,779,490	17%	100%	100%



Average Maturity on 12/31/2017: 0.56 Years  
 Average Maturity of portfolio (excluding bank / LGIP deposits): 1.25 Years  
 Maximum Per Policy: 5 Years

### ACTIVITY & PERFORMANCE SUMMARY

Activity Summary	This Month	Fiscal Year-to-Date
Beginning Amortized Cost	\$ 722,386,303	\$ 409,412,858
Investment purchases	\$ 418,351,740	\$ 469,981,030
Investment maturities and sales	\$ -	\$ (160,450,000)
Amortization	\$ 135,074	\$ 132,733
Net cash deposit (withdrawals)	\$ (368,641,707)	\$ 53,154,789
Realized Gain/Loss	\$ -	\$ -
<b>Ending Amortized Costs</b>	<b>\$ 772,231,410</b>	<b>\$ 772,231,410</b>
Market Value on 12/31/2017	\$ 770,484,445	

Performance Summary	This Month	Fiscal Year-to-Date
Amortization	\$ 135,074	\$ 132,733
Interest income	\$ 715,486	\$ 3,062,620
Realized gain (loss)	\$ -	\$ -
<b>Total income</b>	<b>\$ 850,560</b>	<b>\$ 3,195,353</b>
Average portfolio balance	\$ 747,576,484	\$ 524,593,512
Total Portfolio yield at cost on 12/31/2017	1.35%	
Investment Portfolio yield at cost (excluding bank / LGIP dep)	1.16%	
Local Government Investment Pool interest rate	1.70%	



# Portfolio Appraisal - Settled Trades

US Dollar  
12/31/2017

## 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	99.96	9,996,136.43	99.74	9,973,750.00	4.8	1.0
5,000,000	3134G9G76	FEDERAL HOME LN MTG CORP 0.800% Due 06-29-18	99.96	4,997,893.41	99.57	4,978,480.00	2.4	0.9
10,000,000	3130A8PK3	FEDERAL HOME LOAN BANKS 0.625% Due 08-07-18	99.86	9,986,276.94	99.38	9,938,210.00	4.8	0.9
10,000,000	3136G02M2	FEDERAL NATL MTG ASSN 1.180% Due 10-30-18	99.75	9,975,381.26	99.50	9,949,880.00	4.8	1.5
10,000,000	3133782M2	FEDERAL HOME LOAN BANKS 1.500% Due 03-08-19	100.63	10,063,102.45	99.59	9,958,920.00	4.8	1.0
10,000,000	3134G9AW7	FEDERAL HOME LN MTG CORP 1.150% Due 04-26-19	99.96	9,995,616.44	99.11	9,910,670.00	4.8	1.2
10,000,000	3133EF5X1	FEDERAL FARM CR BKS 1.100% Due 05-03-19	100.11	10,011,061.67	98.95	9,895,420.00	4.7	1.0
15,000,000	313379EE5	FEDERAL HOME LOAN BANKS 1.625% Due 06-14-19	101.04	15,156,254.40	99.60	14,940,240.00	7.2	0.9
15,000,000	3137EAEB1	FEDERAL HOME LN MTG CORP 0.875% Due 07-19-19	99.91	14,986,508.62	98.44	14,765,460.00	7.1	0.9
10,000,000	3136G3X67	FEDERAL NATL MTG ASSN 1.100% Due 08-23-19	100.00	10,000,000.00	98.71	9,870,900.00	4.7	1.1
15,000,000	3133EHYJ6	FEDERAL FARM CR BKS 1.375% Due 09-12-19	99.80	14,970,213.87	99.05	14,857,920.00	7.1	1.5
10,000,000	3137EAEE5	FEDERAL HOME LN MTG CORP 1.500% Due 01-17-20	99.98	9,997,764.34	99.05	9,905,380.00	4.8	1.5
10,000,000	3130ABPV2	FEDERAL HOME LOAN BANKS 1.690% Due 06-29-20	99.96	9,995,768.58	99.09	9,909,040.00	4.8	1.7
10,000,000	3135G0T60	FEDERAL NATL MTG ASSN 1.500% Due 07-30-20	99.76	9,975,924.09	98.76	9,876,300.00	4.7	1.6
				<b>150,107,902.49</b>		<b>148,730,570.00</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	100.57	5,028,511.03	99.78	4,988,890.00	2.4	1.0
10,000,000	037833AQ3	APPLE INC 2.100% Due 05-06-19	100.71	10,071,226.73	100.23	10,022,960.00	4.8	1.6
10,000,000	594918BN3	MICROSOFT CORP 1.100% Due 08-08-19	99.94	9,993,546.67	98.66	9,866,280.00	4.7	1.1
				<b>25,093,284.43</b>		<b>24,878,130.00</b>	<b>11.9</b>	<b>1.3</b>



# Portfolio Appraisal - Settled Trades

US Dollar  
12/31/2017

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	99.93	9,993,032.39	99.83	9,982,760.00	4.8	1.0
10,000,000	912828VE7	UNITED STATES TREAS NTS 1.000% Due 05-31-18	100.04	10,003,670.33	99.80	9,979,690.00	4.8	0.9
15,000,000	912828S68	UNITED STATES TREAS NTS 0.750% Due 07-31-18	99.89	14,983,064.36	99.51	14,926,170.00	7.2	0.9
				<b>34,979,767.08</b>		<b>34,888,620.00</b>	<b>16.7</b>	<b>1.0</b>
<b>Total Portfolio</b>				<b>210,180,954.00</b>		<b>208,497,320.00</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.