



Quarterly Investment Report

AS OF MARCH 31, 2020



This report presents the City's investment portfolio for the quarter ending March 31, 2020. It has been prepared to comply with regulations contained in California Government Code Section 53646. The report includes all investments managed by the City on its own behalf as well as for other third party agencies on a fiduciary basis such as the Whale Rock Commission. It also includes all City-related investments held by trustees for bond debt service obligations. As required, the report provides information on the investment type, issuer, maturity date, cost, and current market value for each security.

May 14, 2020



Market Themes

COVID-19: A Three-Pronged Crisis



Health Crisis Pandemic

The rapidly spreading coronavirus is overwhelming healthcare facilities around the world as the number of cases and deaths related to the virus continue to grow.



Effects on the Economy

With businesses forced to close their doors and consumers stuck at home “social distancing,” the economy has come to a near standstill over a very short period of time.



Effects on Financial Markets

Treasury yields and stock prices have plummeted while credit spreads and volatility have soared in reaction to the uncertainty created by the pandemic.



Market Themes



Capital Markets

Equity prices and bond yields plummeted.



Federal Reserve

The Fed cut the target rate by 150 basis points through emergency actions in March.



Economic Growth

The immediate impact of the pandemic on the economy made typical economic indicators, most of which are backward-looking, essentially irrelevant.

Economic Data & Conditions



- Sector spreads spike to levels not seen since the great recession.
- US Oil prices slid to an 18-year low as a combined result of the price war and the plummeting demand.



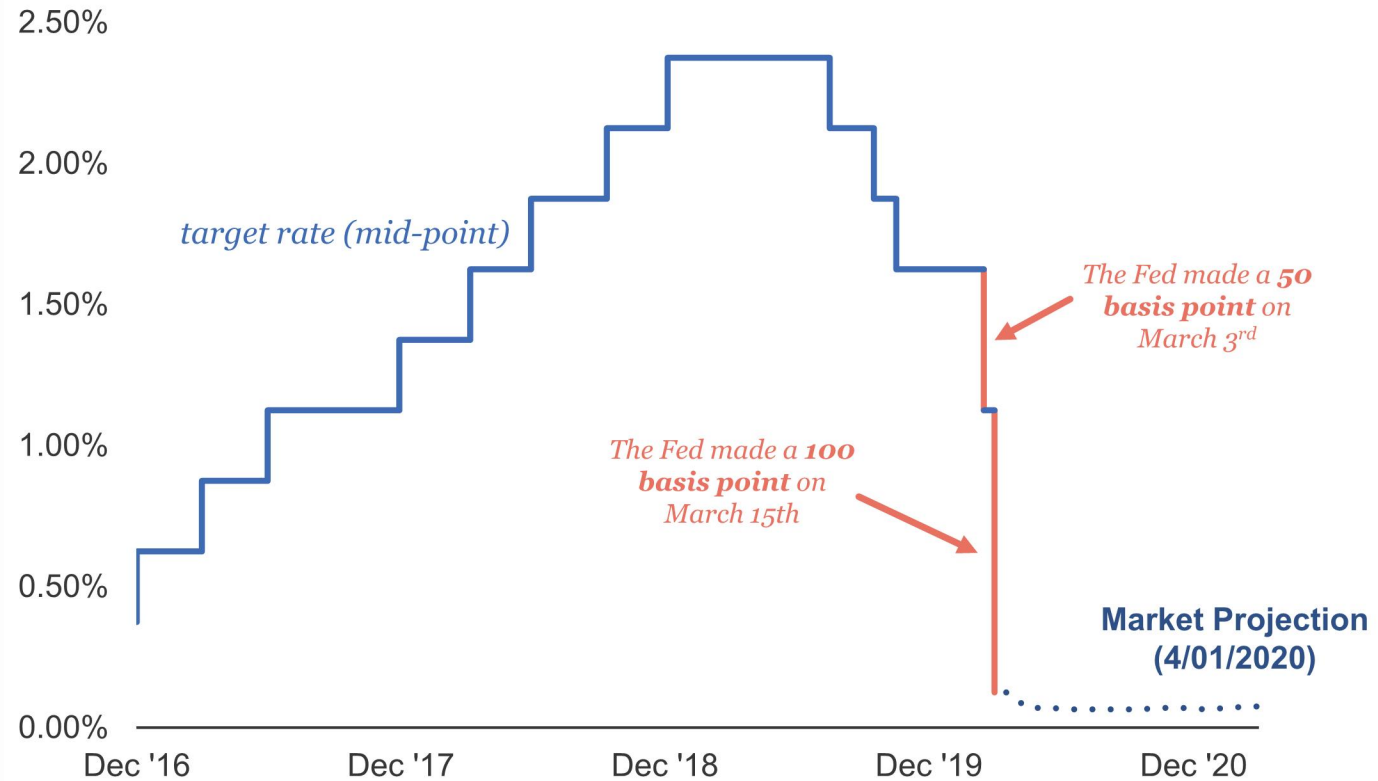
- S&P 500 posted a return of -19.6% for the quarter.
- Services suffered the steepest decline in output since data collection began in 2009.



Market Considerations

- The Federal Reserve responded aggressively by cutting rates at two emergency meetings to the new target range of 0% to 0.25%.
- Treasury yields plunged in the wake of the Fed's new zero interest rate policy, with longer-term Treasury yields reaching new historic lows.

Federal Reserve Target Overnight Rate

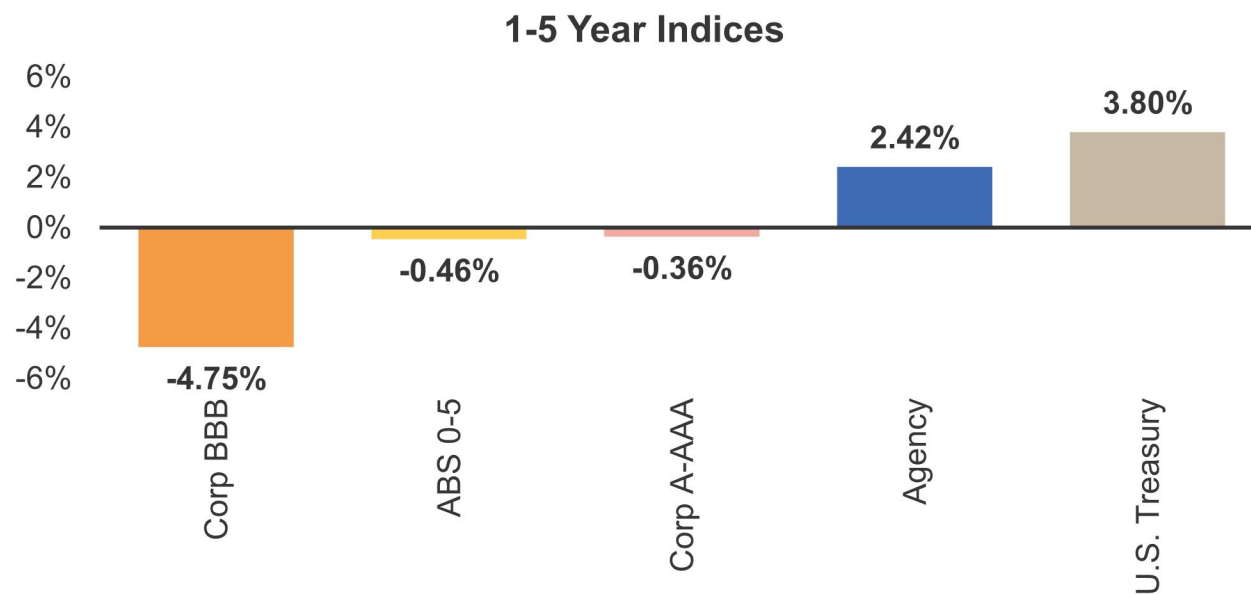
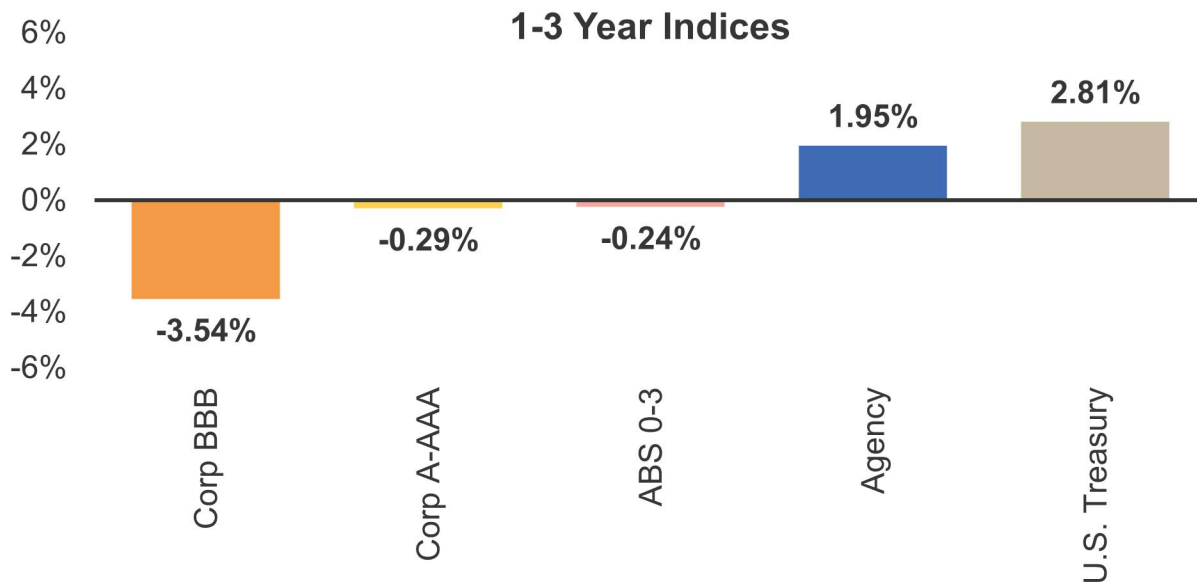


Source: Bloomberg. Market Projection as of March 31, 2020.



Market Considerations

- Amid the extreme flight to quality, U.S. Treasuries led all investment-grade (IG) fixed income sectors.
- Yield spreads on non-Treasuries widened, generating severe underperformance.
- Investment grade corporates produced negative excess returns, with longer-duration and lower quality issues underperforming the most.



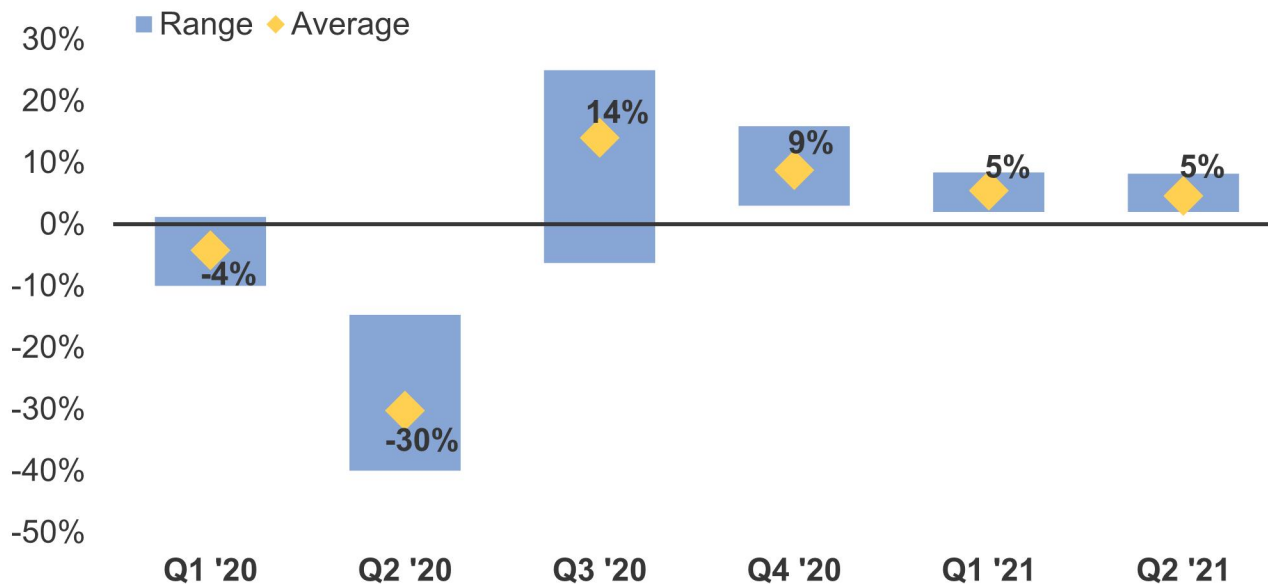
Source: Bloomberg, as of 3/31/2020.



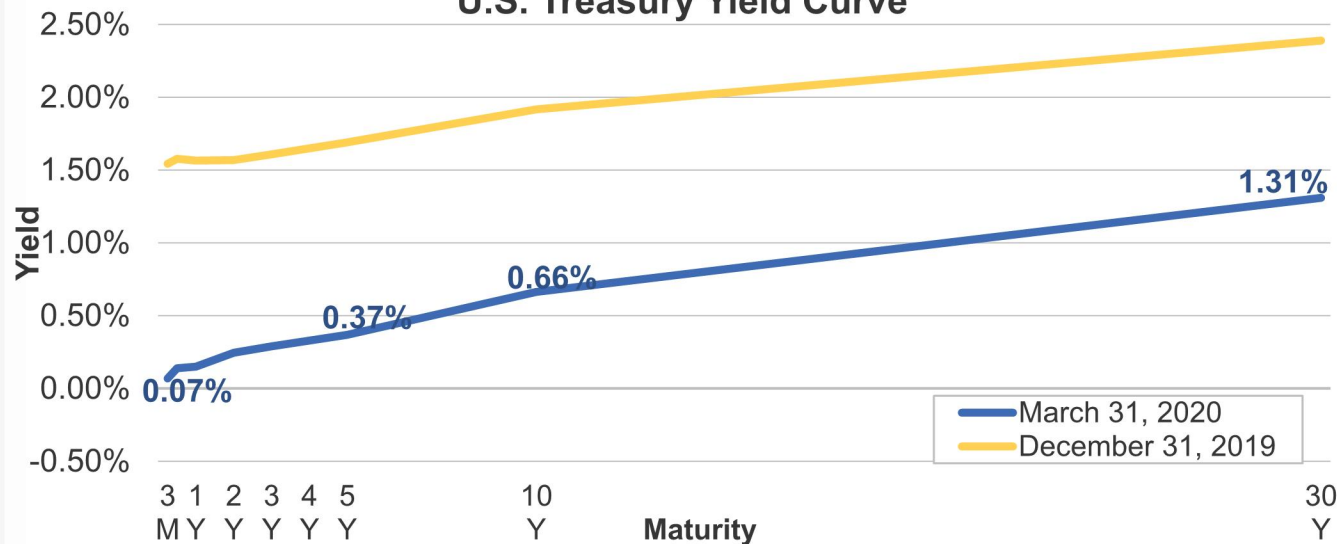
What we are watching...

- Due to the uncertainty regarding the continued spread and duration of the novel coronavirus, forecasts for economic growth vary greatly among economists.
- Investors are anxious to see if the Federal Reserve's significant and unparalleled monetary policy intervention will be successful not only in supporting millions of Americans through a recession, but also in laying a foundation for a robust recovery.

U.S. GDP Forecasts



U.S. Treasury Yield Curve



Source: Bloomberg as of March 31, 2020 .



Current Cash & Investment Summary

The following is a summary of the City's cash and investments based on market value, as of March 31, 2020, compared with the prior quarter.

Investment Entity	March 31, 2020	December 31, 2019	Percent of Total**
City Held Cash & Investments	\$44,416,108	\$43,345,881	29%
LAIF Held Investments	\$23,656,340	\$23,592,559	16%
PFM Managed Investments*	\$82,306,379	\$80,431,220	55%
Trustee Held Investments	\$71,752	\$455,833	<1%
TOTAL	\$150,450,579	\$147,825,493	100%

*Figures shown exclude accrued interest. **Details may not add up to total due to rounding.



Current Cash & Investment Summary

There are several factors which result in changes in cash and investment balances from month-to-month and quarter-to-quarter, dependent on the receipt of revenues or a large disbursement.

Factors

- Some major City revenues are received on a periodic rather than a monthly basis. Property Tax is received in December, January, April, and May of each year. Transient Occupancy Tax is received monthly but varies considerably due to seasonality.
- Payments for bonded indebtedness or large capital projects can reduce the portfolio substantially in the quarter in which they occur.
- The City pays its CalPERS obligation in a lump sum at the beginning of the fiscal year to achieve interest savings.



Securities

Securities in the City's portfolio are priced by IDC, an independent pricing service at the end of every month. In some cases, the City may have investments with a current market value that is greater or less than the recorded value. These changes in market value are due to fluctuations in the marketplace having no effect on yield, as the City does not intend to sell securities prior to maturity. Nevertheless, these market changes can impact the total value of the portfolio.

<u>Security Type</u>	<u>Market Value</u>	<u>% of Portfolio</u>	<u>% Change vs. 12/31/19</u>	<u>Permitted by Policy</u>	<u>In Compliance</u>
U.S. Treasury	\$37,297,352	45.3%	-1.9%	100%	✓
Federal Agency	\$16,120,372	19.6%	+2.8%	100%	✓
Municipal Obligations	\$1,042,622	1.3%	-	30%	✓
Negotiable CDs	\$9,350,062	11.4%	-0.6%	30%	✓
Corporate Notes	\$14,199,283	17.3%	-1.6%	30%	✓
Commercial Paper	\$0	0.0%	-	25%	✓
Asset-Backed Securities	\$4,137,727	5.0%	+1.4%	15%	✓
Securities Sub-Total	\$82,147,419				
Money Market Fund	\$158,960	0.2%	-	20%	✓
Accrued Interest	\$406,319				
Securities Total	\$82,712,698				



Socially Responsible Investment Policy

The City's Investment Policy restricts issuers from the portfolio who generate revenue from tobacco, electronic cigarette, or tobacco-related products, or who support the direct production or drilling of fossil fuels. The City's portfolio is in compliance with the SRI restrictions. Aside are the Bloomberg Industry Classifications ("BICS") for all of the portfolio's holdings.

Issuer	Sector (BICS)
Ally Auto Receivables Trust	Automobiles Manufacturing
American Honda Finance	Automobiles Manufacturing
CarMax, Inc	Automobiles Manufacturing
Copart, Inc.	Automobiles Manufacturing
Hyundai Auto Receivables Trust	Automobiles Manufacturing
Nissan Auto Receivables	Automobiles Manufacturing
Toyota Motor Credit Corp	Automobiles Manufacturing
Bank of Montreal Chicago	Banks
Bank of Nova Scotia	Banks
Nordea Bank AB NY	Banks
Skandinav Enskilda Banken NY	Banks
Societe Generale NY	Banks
Swedbank NY	Banks
Wells Fargo & Company	Banks
Westpac Banking Corp NY	Banks
Apple Inc	Communications Equipment
Unilever NV	Consumer Products

Issuer	Sector (BICS)
San Diego CCD	Education
General Electric	Electrical Equipment Manufacturing
Walt Disney Company	Entertainment Content
BNY Mellon	Financial Services
DNB Bank	Financial Services
Hershey Company	Food & Beverage
California State	General Government
FHLB	Government Agencies
FHLMC	Government Agencies
FNMA	Government Agencies
John Deere	Machinery Manufacturing
Wal-Mart Stores	Mass Merchants
Pfizer Inc.	Pharmaceuticals
Amazon.com, Inc.	Retail - Consumer Discretionary
Home Depot	Retail - Consumer Discretionary
IBM	Software & Services
U.S. Treasury	Sovereigns

Source: Bloomberg. BICs is an industry classification system developed and utilized by Bloomberg that classifies securities based on business, economic function, and other characteristics.



Total Return

Total return is calculated based on interest and both realized and unrealized changes in market value, expressed as a rate of return over a specified period of time based on cost and is backward-looking.

- Focused on long-term performance and growth
- Affected by both yield and market value fluctuations
- Reflects “true value” of the portfolio
- Recommended approach by the Government Finance Officers Association

PFM Managed	03/31/2020	12/31/2019
Average Maturity (Years)	2.28	2.21
Effective Duration ¹	2.11	2.05
Average Market Yield	0.90%	1.69%

¹Effective duration is the approximate percentage change in price for each 1% change in interest rates.

Total Rate of Return	3 Months	1 Year	3 Years	Since Inception
City of SLO	2.28%	5.21%	2.90%	2.12%
0–5 Treasury Index	3.20%	6.02%	3.01%	2.11%
Variance	-0.92%	-0.81%	-0.11%	+0.01%



As of March 31, 2020, the investment portfolio was in compliance with all State laws, the City's Statement of Investment Policy, and the City's Investment Management Plan.

Summary of Activity for the Quarter & Future Liquidity

Cash receipts and disbursements are consistent with past trends for the quarter. The cash management program contains enough liquidity to meet at least the next three months of expected expenditures by the City as well as by related parties.



If you have any questions concerning this report, or require additional information, contact Brigitte Elke, Finance Director at **(805) 781-7510**.





Investment Portfolio Benefits All Funds

The City's cash and investment portfolio represents money from all City funds, including the General Fund, enterprise funds (Water, Sewer, Parking, Transit), special revenue funds (Tourism, Downtown Assessments), capital projects funds, and other funds which are restricted to specific purposes.

In general, monies held by the City are either allocated by the City Council for spending or are purposefully retained in reserve. For example, the money in the Capital Outlay Fund has been identified to provide particular capital projects for the community, and there is a plan for spending down the cash balance as the projects progress. Balances held in reserve per the City's financial policies equate to 20% of the operating budget. For the fiscal year 2019-20, they are listed in the chart to the left.

Fund	FY 2019-20
General	\$ 10,230,000
Water	\$ 4,572,000
Sewer	\$ 2,844,000
Parking	\$ 539,000
Transit	\$ 820,000
Tourism	\$ 100,000





Investment Objectives

The investment objectives of the City of San Luis Obispo are first, to provide safety of principal to ensure the preservation of capital in the overall portfolio; second, to provide sufficient liquidity to meet all operating requirements; and third, to earn a commensurate rate of return consistent with the constraints imposed by the safety and liquidity objectives. The City follows the practice of pooling cash and investments for all funds under its direct control. Funds held by outside fiscal agents under provisions of bond indentures are maintained separately. Interest earned on pooled cash and investments is allocated quarterly to the various Quarterly Investment Report funds based on the respective fund's average quarterly cash balance. Interest earned from cash and investments with fiscal agents is credited directly to the related accounts.

It is common for governments to pool the cash and investments of various funds to improve investment performance. By pooling funds, the City can benefit from economies of scale, diversification, liquidity, and ease of administration. The City uses the services of an investment advisor, PFM Asset Management, to manage a portion of the City's portfolio. The City's strategy is to retain approximately 25% of the portfolio to manage its day-to-day cash flow needs, while PFM's focus is on longer-term investment management. In addition, the City has retained direct control of several investments that had been acquired before the City began to use investment advisors. All investments are held by the City in a safekeeping account with Bank of New York Mellon, except for investments held by trustees related to bond financings, which are held by either US Bank or Bank of New York Mellon.



Distribution List

City Council

Heidi Harmon
Mayor

Andy Pease
Vice Mayor

Aaron Gomez
Council Member

Erica A. Stewart
Council Member

Carlyn Christianson
Council Member

Investment Oversight Committee

Heidi Harmon
Mayor

Daniel Humphrey
Public Member

Derek Johnson
City Manager

Brigitte Elke
Director of Finance

Debbie Malicoat
Accounting Manager/Controller

Natalie Harnett
Principal Financial Analyst—Budget

Independent Auditor

Badawi & Associates

PFM Asset Management

Monique Spyke
Managing Director

