



Quarterly Investment Report

AS OF SEPTEMBER 30, 2019



This report presents the City's investment portfolio for the quarter ending September 30, 2019. 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.

November 14, 2019



Market Themes



Capital Markets

Market indicators are mixed, but a recession does not appear imminent



Federal Reserve

The Fed elected to cut rates twice for the first time in over a decade



Economic Growth

U.S. economic growth expectations have declined throughout the quarter

Economic Data & Conditions



- Inflation stubbornly continues to lag the Fed's 2% target
- Average monthly job growth has slowed throughout 2019
- Recent trade conflicts continue to weigh on the manufacturing sector



- Consumer confidence remains historically high
- S&P 500 ended the third quarter up 18.7% year-to-date
- Investment grade corporate issuance broke records in September

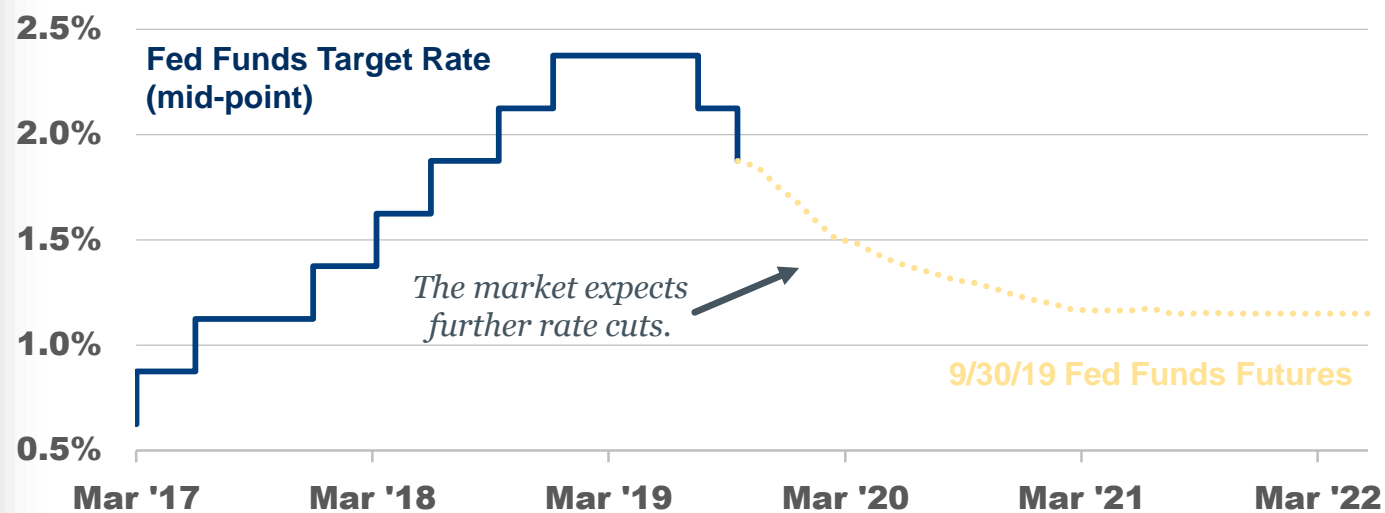


Market Considerations

- A deteriorating U.S. economic outlook—made worse by ongoing trade tensions—prompted the Fed to cut rates by 50 basis points (0.50%) throughout the quarter, lowering their target rate to a range of 1.75-2.00%.
 - While Fed Chair Jay Powell characterized the move as a “mid-cycle policy adjustment,” the market expects at least one more rate cut in 2019.



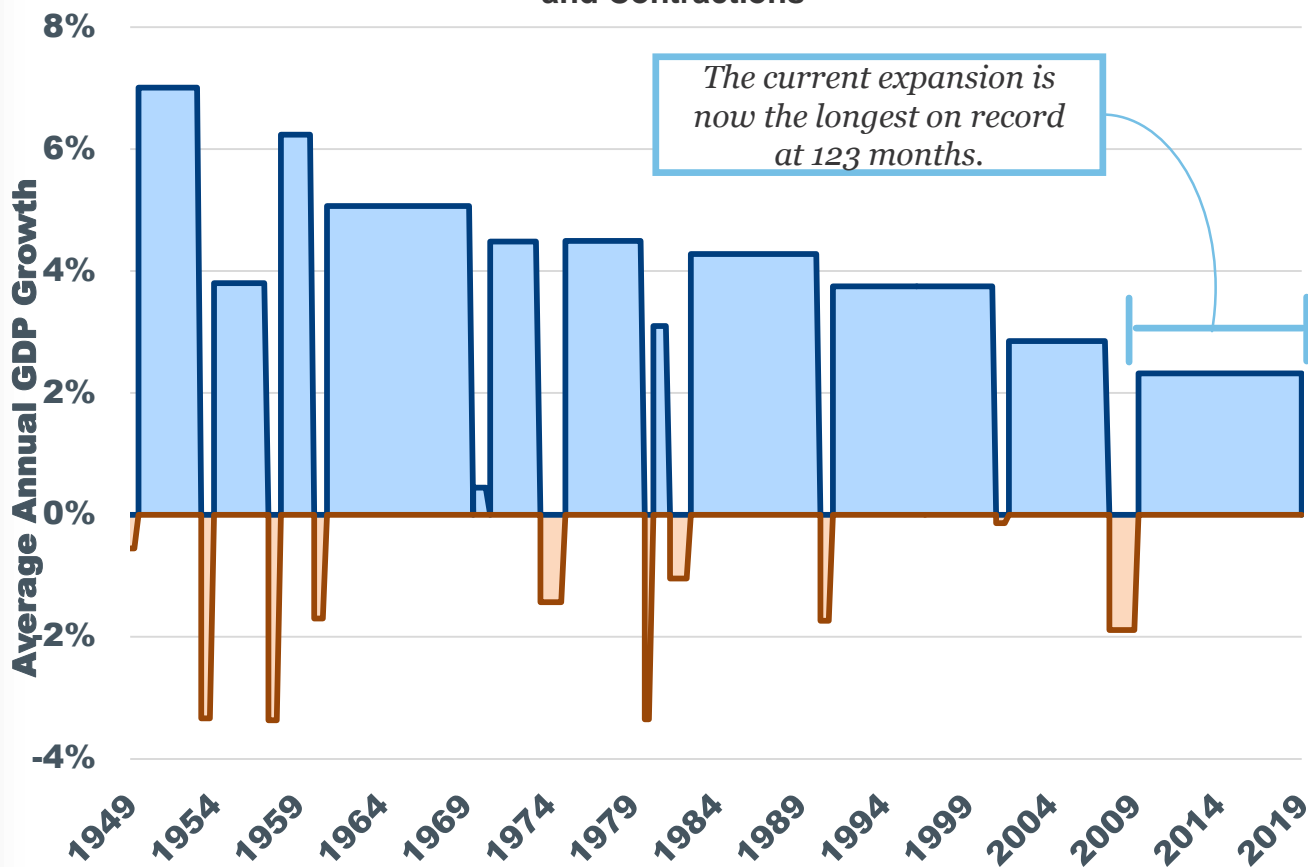
“...weak global growth...trade policy uncertainty...and muted inflation...”



What we are watching...

- The OCED projected the world growth outlook at 3.2% four months ago, and they recently revised this figure down to 2.9% for 2019.
 - "The global economy has become increasingly fragile and uncertain, with growth slowing and downside risks continuing to mount" – OECD, 9/19/19
- Rising uncertainties, weaker growth prospects and low inflation are keeping investors on edge. While a U.S. recession is not the immediate forecast, risks are rising including escalating U.S.-China trade tensions and slowing growth abroad.

Average Annual Growth in Real GDP
During U.S. Economic Expansions
and Contractions



Current Cash & Investment Summary

The following is a summary of the City's cash and investments based on market value, as of September 30, 2019, compared with the prior quarter.

Investment Entity	September 30, 2019	June 30, 2019	Percent of Total
City Held Cash & Investments	\$26,061,006	\$29,015,340	20%
LAIF Held Investments	\$24,039,591	\$23,299,241	18%
PFM Managed Investments*	\$80,377,095	\$79,541,637	61%
Trustee Held Investments	\$960,802	\$967,488	1%
TOTAL	\$131,438,495	\$132,823,706	100%

*Figures shown exclude accrued interest.



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.

Security Type	Market Value	% of Portfolio	% Change vs. 6/30/19	Permitted by Policy	In Compliance
U.S. Treasury	\$34,867,157	43.4%	+1.5%	100%	Ü
Federal Agency	\$15,597,231	19.4%	-5.0%	100%	Ü
Municipal Obligations	\$226,433	0.3%	+0.3%	30%	Ü
Negotiable CDs	\$9,076,113	11.3%	+1.4%	30%	Ü
Corporate Notes	\$16,038,868	20.0%	+1.3%	30%	Ü
Commercial Paper	\$1,492,631	1.9%	-	25%	Ü
Asset-Backed Securities	\$2,934,281	3.7%	+0.5%	15%	Ü
Securities Sub-Total	\$80,232,714	99.9%			
Money Market Fund	\$144,382	0.1%	-	20%	Ü
Accrued Interest	\$363,310				
Securities Total	\$80,740,405				



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	9/30/2019	6/30/2019
Average Maturity (Years)	2.27	2.21
Effective Duration ¹	2.11	2.06
Average Market Yield	1.81	1.97%

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	0.82%	5.02%	1.90%	1.76%
0-5 Treasury Index	0.72%	4.98%	1.63%	1.58%
Variance	+0.10%	+0.04%	+0.27%	+0.19%



As of September 30, 2019, 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**.



Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
BUY									
7/1/19	7/3/19	1,875,000	912828XX3	US TREASURY N/B NOTES	2.00%	6/30/24	1,894,641.65	1.78%	
7/10/19	7/12/19	1,350,000	931142EL3	WALMART INC CORPORATE NOTES	2.85%	7/8/24	1,391,089.50	2.21%	
7/17/19	7/18/19	645,000	313384JW0	FEDERAL HOME LOAN BANKS DISC NOTE	0.00%	8/1/19	644,458.20	2.16%	
7/18/19	7/22/19	640,000	89236TEL5	TOYOTA MOTOR CREDIT CORP	2.70%	1/11/23	649,334.40	2.29%	
8/1/19	8/2/19	1,050,000	912796VT3	UNITED STATES TREASURY BILL	0.00%	9/3/19	1,048,121.67	2.02%	
8/1/19	8/2/19	1,075,000	9128282N9	US TREASURY N/B	2.12%	7/31/24	1,090,157.35	1.83%	
8/6/19	8/14/19	395,000	89238UAD2	TAOT 2019-C A3	1.91%	9/15/23	394,996.76	1.91%	
8/14/19	8/15/19	590,000	9128282N9	US TREASURY N/B	2.12%	7/31/24	607,450.49	1.52%	
8/27/19	8/29/19	1,145,000	65558TLL7	NORDEA BANK ABP NEW YORK CERT DEPOS	1.85%	8/26/22	1,145,000.00	1.87%	
8/29/19	9/3/19	1,200,000	83050PDR7	SKANDINAV ENSKILDA BANK LT CD	1.86%	8/26/22	1,200,000.00	1.88%	
9/11/19	9/12/19	285,000	912796WC9	UNITED STATES TREASURY BILL	0.00%	11/5/19	284,168.94	1.95%	
9/18/19	10/16/19	225,000	797272QN4	SAN DIEGO CCD, CA TXBL GO BONDS	1.99%	8/1/23	225,000.00	2.00%	
Total BUY		10,475,000					10,574,418.96		
INTEREST									
7/2/19	7/2/19	0	MONEY0002	MONEY MARKET FUND			121.80		
7/5/19	7/5/19	2,235,000	3135G0S38	FANNIE MAE NOTES	2.00%	1/5/22	22,350.00		
7/8/19	7/8/19	435,000	89236TFQ3	TOYOTA MOTOR CREDIT CORP CORP NOTES	3.05%	1/8/21	6,633.75		
7/11/19	7/11/19	555,000	3135G0U92	FANNIE MAE NOTES	2.62%	1/11/22	7,284.38		
7/15/19	7/15/19	275,000	14316LAC7	CARMX 2019-2 A3	2.68%	3/15/24	614.17		
7/15/19	7/15/19	500,000	65479KAD2	NAROT 2019-A A3	2.90%	10/15/23	1,208.33		
7/15/19	7/15/19	440,000	65479HAC1	NAROT 2019-B A3	2.50%	11/15/23	916.67		
7/15/19	7/15/19	220,000	14042WAC4	COPAR 2019-1 A3	2.51%	11/15/23	460.17		
7/15/19	7/15/19	335,000	44932NAD2	HYUNDAI AUTO RECEIVABLES TRUST	2.66%	6/15/23	742.58		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
7/15/19	7/15/19	80,000	89239AAD5	TAOT 2019-A A3	2.91%	7/15/23	194.00		
7/15/19	7/15/19	35,000	02004WAC5	ALLYA 2019-1 A3	2.91%	9/15/23	84.88		
7/18/19	7/18/19	640,000	89236TBP9	TOYOTA MOTOR CREDIT CORP NOTES	2.12%	7/18/19	6,800.00		
7/18/19	7/18/19	210,000	43814WAC9	HAROT 2019-1 A3	2.83%	3/20/23	495.25		
7/21/19	7/21/19	410,000	43815MAC0	HAROT 2019-2 A3	2.52%	6/21/23	861.00		
7/27/19	7/27/19	750,000	459200JQ5	IBM CORP BONDS	2.50%	1/27/22	9,375.00		
7/30/19	7/30/19	1,465,000	3135G0T60	FNMA NOTES	1.50%	7/30/20	10,987.50		
7/31/19	7/31/19	855,000	912828S92	US TREASURY NOTES	1.25%	7/31/23	5,343.75		
7/31/19	7/31/19	1,545,000	912828V72	US TREASURY NOTES	1.87%	1/31/22	14,484.38		
7/31/19	7/31/19	580,000	912828H52	US TREASURY NOTES	1.25%	1/31/20	3,625.00		
7/31/19	7/31/19	2,100,000	912828XQ8	US TREASURY NOTES	2.00%	7/31/22	21,000.00		
7/31/19	7/31/19	795,000	9128282P4	US TREASURY NOTES	1.87%	7/31/22	7,453.13		
7/31/19	7/31/19	350,000	912828WY2	US TREASURY NOTES	2.25%	7/31/21	3,937.50		
7/31/19	7/31/19	685,000	912828XM7	US TREASURY NOTES	1.62%	7/31/20	5,565.63		
8/2/19	8/2/19	0	MONEY0002	MONEY MARKET FUND			111.84		
8/2/19	8/2/19	1,350,000	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	5,906.25		
8/5/19	8/5/19	1,350,000	06370REU9	BANK OF MONTREAL CHICAGO CERT DEPOS	3.19%	8/3/20	43,902.38		
8/5/19	8/5/19	440,000	3135G0V34	FANNIE MAE NOTES	2.50%	2/5/24	5,408.33		
8/7/19	8/7/19	1,345,000	96121T4A3	WESTPAC BANKING CORP NY CD	2.05%	8/3/20	13,786.25		
8/9/19	8/9/19	1,050,000	037833CM0	APPLE INC CORP NOTES	2.50%	2/9/22	13,125.00		
8/12/19	8/12/19	1,000,000	594918AY0	MICROSOFT CORP (CALLABLE) NOTE	1.85%	2/12/20	9,250.00		
8/13/19	8/13/19	120,000	3130AFW94	FHLB BONDS	2.50%	2/13/24	1,483.33		
8/15/19	8/15/19	35,000	02004WAC5	ALLYA 2019-1 A3	2.91%	9/15/23	84.88		
8/15/19	8/15/19	220,000	14042WAC4	COPAR 2019-1 A3	2.51%	11/15/23	460.17		
8/15/19	8/15/19	500,000	65479KAD2	NAROT 2019-A A3	2.90%	10/15/23	1,208.33		
8/15/19	8/15/19	335,000	44932NAD2	HYUNDAI AUTO RECEIVABLES TRUST	2.66%	6/15/23	742.58		
8/15/19	8/15/19	275,000	14316LAC7	CARMX 2019-2 A3	2.68%	3/15/24	614.17		
8/15/19	8/15/19	80,000	89239AAD5	TAOT 2019-A A3	2.91%	7/15/23	194.00		
8/15/19	8/15/19	240,000	084664CK5	BERKSHIRE HATHAWAY INC CORPORATE NOTES	1.30%	8/15/19	1,560.00		
8/15/19	8/15/19	355,000	3137EAEH8	FREDDIE MAC NOTES	1.37%	8/15/19	2,440.63		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
8/15/19	8/15/19	525,000	9128283X6	US TREASURY N/B NOTES	2.25%	2/15/21	5,906.25		
8/15/19	8/15/19	440,000	65479HAC1	NAROT 2019-B A3	2.50%	11/15/23	916.67		
8/16/19	8/16/19	1,000,000	3137EAEL9	FREDDIE MAC NOTES	2.37%	2/16/21	11,875.00		
8/17/19	8/17/19	960,000	06406HDD8	BNY MELLON CORP NOTE (CALLABLE)	2.60%	8/17/20	12,480.00		
8/17/19	8/17/19	1,000,000	3135G0N82	FNMA NOTES	1.25%	8/17/21	6,250.00		
8/17/19	8/17/19	325,000	3135G0N82	FNMA NOTES	1.25%	8/17/21	2,031.25		
8/17/19	8/17/19	760,000	3135G0N82	FNMA NOTES	1.25%	8/17/21	4,750.00		
8/18/19	8/18/19	210,000	43814WAC9	HAROT 2019-1 A3	2.83%	3/20/23	495.25		
8/20/19	8/20/19	1,145,000	65590ASN7	NORDEA BANK AB NY CD	2.72%	2/20/20	15,572.00		
8/21/19	8/21/19	410,000	43815MAC0	HAROT 2019-2 A3	2.52%	6/21/23	861.00		
8/22/19	8/22/19	775,000	023135AW6	AMAZON.COM INC BONDS	2.40%	2/22/23	9,300.00		
8/26/19	8/26/19	520,000	3135G0J20	FNMA NOTES	1.37%	2/26/21	3,575.00		
8/28/19	8/28/19	885,000	3135G0T29	FNMA NOTES	1.50%	2/28/20	6,637.50		
8/31/19	8/31/19	365,000	912828J43	US TREASURY NOTES	1.75%	2/28/22	3,193.75		
8/31/19	8/31/19	725,000	912828B90	US TREASURY NOTES	2.00%	2/28/21	7,250.00		
8/31/19	8/31/19	500,000	912828D72	US TREASURY NOTES	2.00%	8/31/21	5,000.00		
8/31/19	8/31/19	425,000	912828P79	US TREASURY NOTES	1.50%	2/28/23	3,187.50		
9/3/19	9/3/19	1,145,000	90275DHG8	UBS AG STAMFORD CT LT CD	2.90%	3/2/20	16,879.21		
9/4/19	9/4/19	0	MONEY0002	MONEY MARKET FUND			277.10		
9/9/19	9/9/19	400,000	02665WBG5	AMERICAN HONDA FINANCE CORP NOTES	1.70%	9/9/21	3,400.00		
9/12/19	9/12/19	1,570,000	3135G0U43	FANNIE MAE NOTES	2.87%	9/12/23	22,568.75		
9/12/19	9/12/19	260,000	3135G0ZG1	FNMA NOTES	1.75%	9/12/19	2,275.00		
9/15/19	9/15/19	1,100,000	717081ES8	PFIZER INC CORP NOTES	2.95%	3/15/24	16,585.56		
9/15/19	9/15/19	275,000	14316LAC7	CARMX 2019-2 A3	2.68%	3/15/24	614.17		
9/15/19	9/15/19	440,000	65479HAC1	NAROT 2019-B A3	2.50%	11/15/23	916.67		
9/15/19	9/15/19	35,000	02004WAC5	ALLYA 2019-1 A3	2.91%	9/15/23	84.88		
9/15/19	9/15/19	395,000	89238UAD2	TAOT 2019-C A3	1.91%	9/15/23	670.62		
9/15/19	9/15/19	335,000	44932NAD2	HYUNDAI AUTO RECEIVABLES TRUST	2.66%	6/15/23	742.58		
9/15/19	9/15/19	500,000	65479KAD2	NAROT 2019-A A3	2.90%	10/15/23	1,208.33		
9/15/19	9/15/19	220,000	14042WAC4	COPAR 2019-1 A3	2.51%	11/15/23	460.17		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
9/15/19	9/15/19	80,000	89239AAD5	TAOT 2019-A A3	2.91%	7/15/23	194.00		
9/18/19	9/18/19	210,000	43814WAC9	HAROT 2019-1 A3	2.83%	3/20/23	495.25		
9/21/19	9/21/19	410,000	43815MAC0	HAROT 2019-2 A3	2.52%	6/21/23	861.00		
9/30/19	9/30/19	840,000	912828Q29	US TREASURY NOTES	1.50%	3/31/23	6,300.00		
9/30/19	9/30/19	765,000	9128285D8	UNITED STATES TREASURY NOTES	2.87%	9/30/23	10,996.88		
9/30/19	9/30/19	500,000	912828L57	US TREASURY NOTES	1.75%	9/30/22	4,375.00		
9/30/19	9/30/19	1,300,000	912828W89	US TREASURY NOTES	1.87%	3/31/22	12,187.50		
9/30/19	9/30/19	1,240,000	912828L57	US TREASURY NOTES	1.75%	9/30/22	10,850.00		
9/30/19	9/30/19	1,200,000	912828W89	US TREASURY NOTES	1.87%	3/31/22	11,250.00		
9/30/19	9/30/19	1,860,000	912828W89	US TREASURY NOTES	1.87%	3/31/22	17,437.50		
9/30/19	9/30/19	2,085,000	912828W89	US TREASURY NOTES	1.87%	3/31/22	19,546.88		
Total INTEREST		52,325,000					491,275.23		

MATURITY

7/18/19	7/18/19	640,000	89236TBP9	TOYOTA MOTOR CREDIT CORP NOTES	2.12%	7/18/19	640,000.00		0.00
8/1/19	8/1/19	645,000	313384JW0	FEDERAL HOME LOAN BANKS DISC NOTE	0.00%	8/1/19	645,000.00		0.00
8/2/19	8/2/19	1,350,000	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	1,350,000.00		0.00
8/15/19	8/15/19	240,000	084664CK5	BERKSHIRE HATHAWAY INC CORPORATE NOTES	1.30%	8/15/19	240,000.00		0.00
8/15/19	8/15/19	355,000	3137EAEH8	FREDDIE MAC NOTES	1.37%	8/15/19	355,000.00		0.00
9/3/19	9/3/19	1,050,000	912796VT3	UNITED STATES TREASURY BILL	0.00%	9/3/19	1,050,000.00		0.00
9/12/19	9/12/19	260,000	3135G0ZG1	FNMA NOTES	1.75%	9/12/19	260,000.00		0.00
Total MATURITY		4,540,000					4,540,000.00		0.00

SELL

7/1/19	7/3/19	1,000,000	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	1,002,570.14	2.23%	(1,054.36)
7/1/19	7/3/19	275,000	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	275,928.43	2.24%	(157.76)

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
7/1/19	7/3/19	550,000	3137EADK2	FREDDIE MAC GLOBAL NOTES	1.25%	8/1/19	552,473.78	2.24%	(160.04)
7/10/19	7/12/19	1,385,000	912828XX3	US TREASURY N/B NOTES	2.00%	6/30/24	1,396,994.08	1.83%	(3,124.82)
7/18/19	7/22/19	640,000	9128283C2	US TREASURY N/B NOTES	2.00%	10/31/22	646,936.96	1.80%	19,878.46
8/7/19	8/9/19	350,000	912828WY2	US TREASURY NOTES	2.25%	7/31/21	354,813.69	1.57%	1,409.69
8/27/19	8/29/19	1,145,000	65590ASN7	NORDEA BANK AB NY CD	2.72%	2/20/20	1,149,677.37	2.00%	3,898.77
Total SELL		5,345,000					5,379,394.45		20,689.94



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 operating budget. For fiscal year 2019-20, they are as follows 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 safe keeping 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 Skype

Relationship Manager

