



# San Mateo County Transportation Authority

Investment Performance Review  
For the Quarter Ended December 31, 2016

## PFM Asset Management LLC

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### Portfolio Compliance and Sector Allocation

- The portfolio is in compliance with the Authority's Investment Policy and the California Government Code.

<u>Security Type</u> <sup>1</sup>	<u>December 31, 2016</u>	<u>% of Portfolio</u>	<u>Permitted by Policy</u>	<u>Average Credit Rating</u>
U.S. Treasury	\$42,516,457	27.3%	100%	AA+
Federal Agency/GSE	\$63,951,763	41.1%	100%	AA+
Federal Agency/CMO	\$6,780,243	4.4%	20%	AA+
Corporate Notes	\$21,817,290	14.0%	30%	A
Negotiable CDs	\$6,250,034	4.0%	10%	A+
Commercial Paper	\$13,931,964	9.0%	15%	A-1
Money Market Fund	\$403,692	0.3%	10%	AAA
<b>Totals</b>	<b>\$155,651,443</b>	<b>100.0%</b>		

1. 12/31/2016 market values of portfolio holdings, excluding accrued interest



### Portfolio Earnings and Return

- Over the quarter, the Authority realized earnings of \$290,137.
- The total return for the quarter was -0.66%. The portfolio performed well relative to the benchmark amid declining market values caused by the rise in interest rates.
  - The portfolio outperformed the benchmark by 17 basis points.

	Earnings		Yield to Maturity		Duration	Performance		
	4 <sup>th</sup> Quarter 2016	4 <sup>th</sup> Quarter 2015	Cost	Market	(Years)	3 Months	1 Year	Since Inception*
San Mateo County Transportation Authority	\$290,137	\$313,047	1.22%	1.41%	2.14	-0.66%	0.87%	0.53%
Performance Benchmark	--	--	--	1.26%	2.16	-0.83%	1.17%	0.70%

As of December 31, 2016.  
\*Since March 31, 2015.



### U.S. Economic & Market Highlights



As of December 31, 2016.  
Source: Bloomberg.



#### Fourth Quarter Portfolio Activity

- We managed the portfolio's duration to be comparable to the benchmark to reduce potential performance mismatches.
- We sold Federal Agencies as spreads continued to tighten over the quarter.
- We added Agency mortgage-backed securities to the portfolio, seeking incremental income and further portfolio diversification.
- We purchased high-quality corporate securities throughout the quarter. Valuations remained fair-to-modestly-expensive amid tight yield spread levels.
- We purchased commercial paper and certificates of deposit as significant money market reforms during the fourth quarter created excellent investment opportunities in short-term credit instruments.



#### Investment Strategy Outlook

- Our primary objectives of the Authority's investment activities, in priority order, shall be safety of principal, liquidity, and return.
- As 2017 starts with the highest yields in several years, we plan to initially position the portfolio's duration to be aligned with the benchmark.
- Agency yield spreads over Treasuries remain narrow. As a result, our strategy will generally favor U.S. Treasuries over agencies.
- We will continue to evaluate opportunities in the Agency mortgage-backed security sector, purchasing those issues we believe are well structured and offer adequate yield spreads.
- Our strategy continues to favor broad allocation to various credit sectors, including corporate notes, commercial paper, and negotiable bank CDs.
  - Yield spreads on corporate securities remain narrow.
  - Yields on commercial paper and negotiable CDs continue to offer significant yield pickup relative to short-term government securities.