



Yolo County

Investment Review Fourth Quarter 2018

Presented By

Sarah Meacham, Managing Director
Allison Kaune, Senior Managing Consultant

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50 California Street
Suite 2300
San Francisco, CA 94111
415-982-5544

213 Market Street
Harrisburg, PA 17101
717-232-2723

PFM Asset
Management LLC
pfm.com

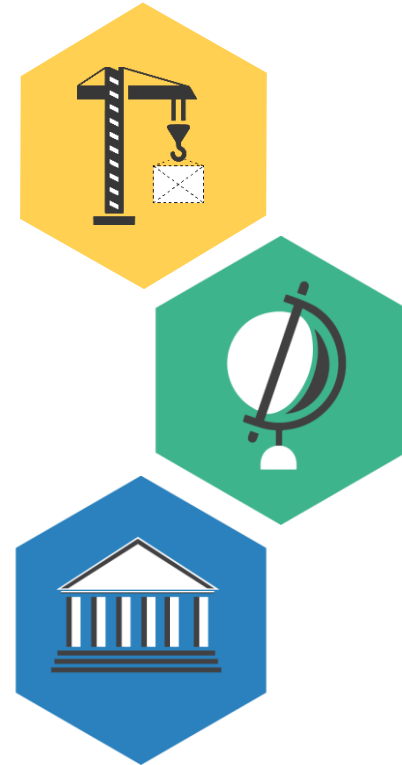


Economic and Interest Rate Update



2018 Market Update

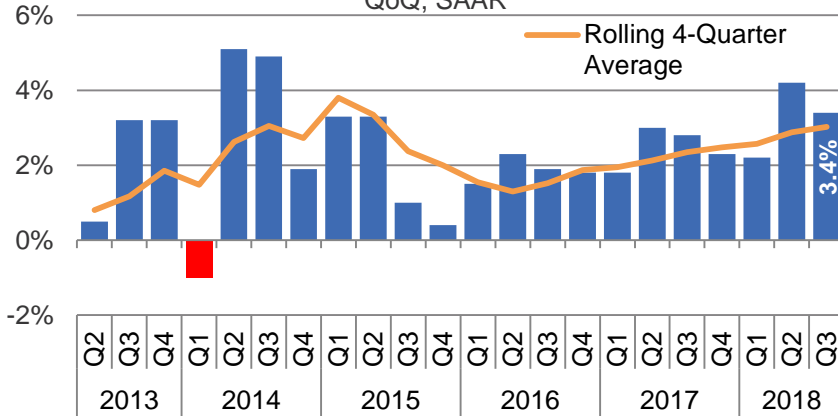
- Recent economic conditions were characterized by:
 - Solid GDP growth in the U.S., slowing global growth
 - Continued strength in the domestic labor market
 - Inflation just below the Fed's 2% target
 - Equity market sell-off late in the year
 - Interest rates increased most of the year before reversing course in fourth quarter
 - Four rate hikes by the Federal Reserve throughout the year



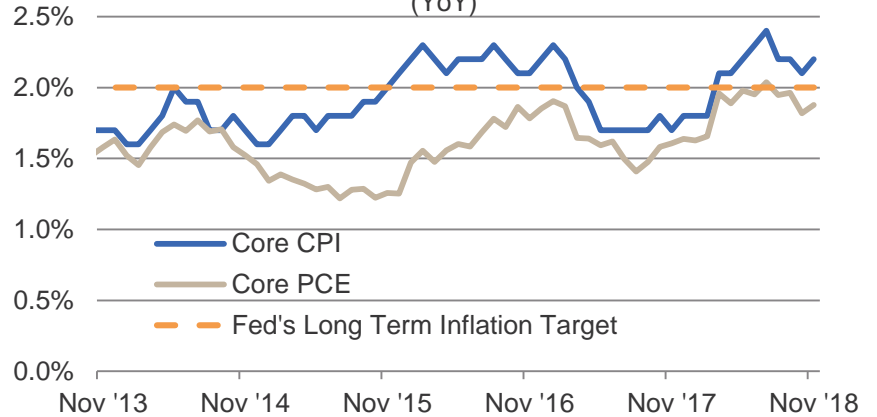


Economic Summary

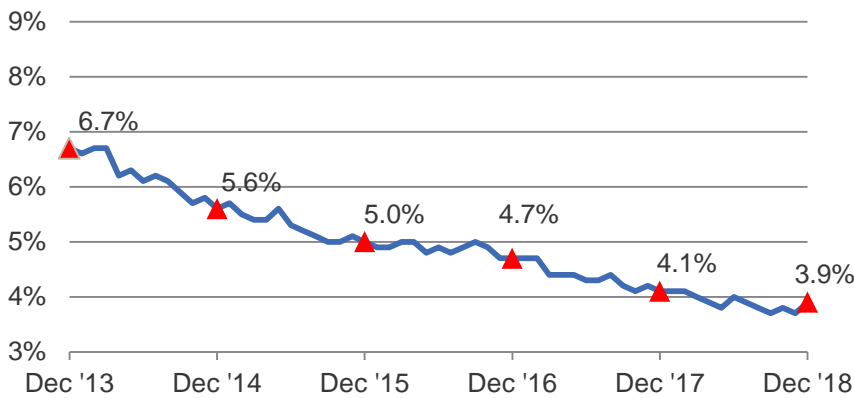
U.S. Real GDP
QoQ, SAAR



Inflation Measures
(YoY)



Unemployment Rate



Consumer Confidence

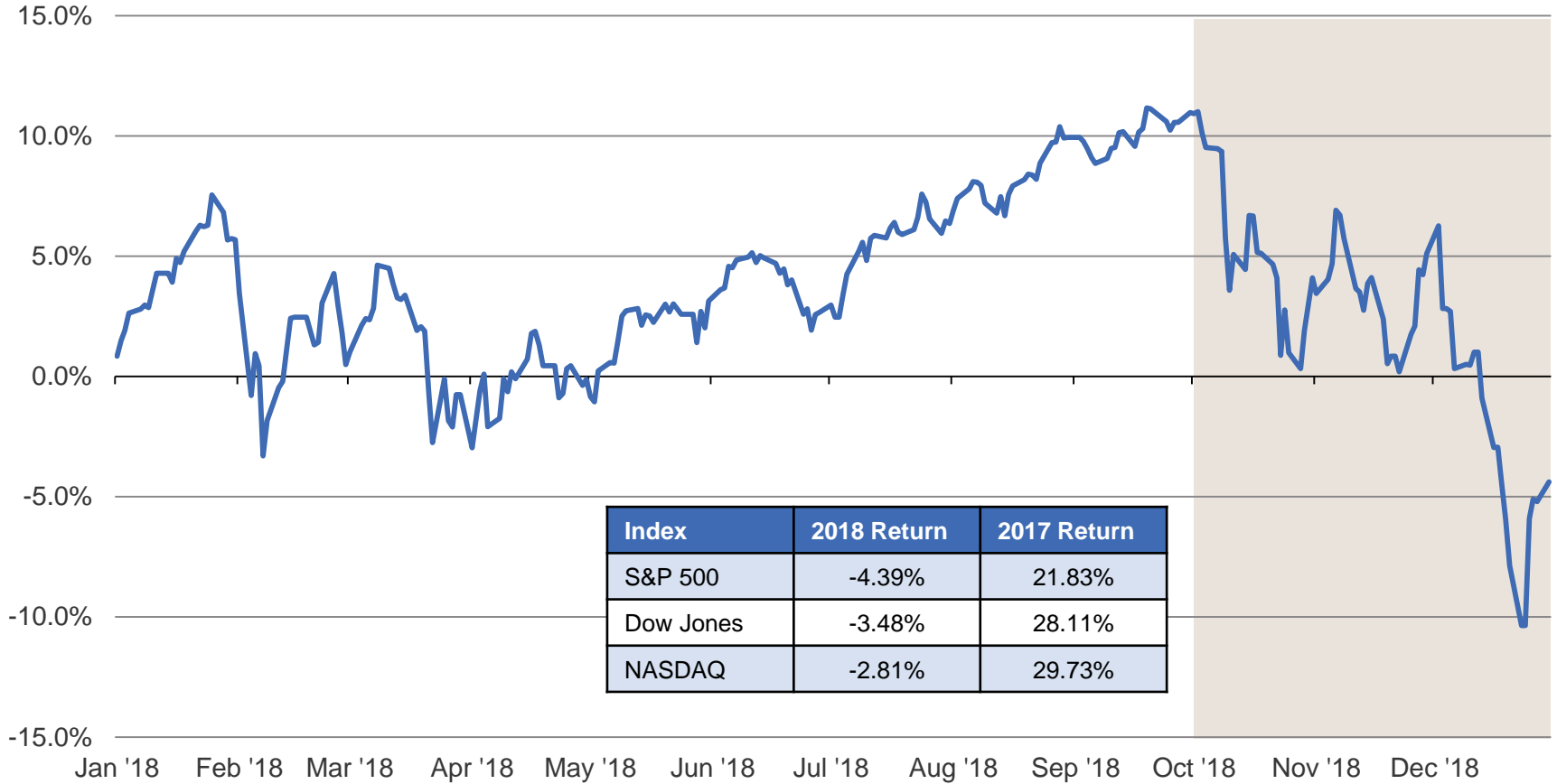


Source: Bloomberg, as of third quarter 2018. SAAR is seasonally adjusted annualized rate.



Fourth Quarter Stock Sell-Off Erases Year-to-Date Gains

S&P 500 Cumulative Total Return Year-to-Date



Source: Bloomberg, as of 12/31/2018.



Treasury Yields Fall from Recent Highs

2-Year Treasury Yields
December 31, 2017 – December 31, 2018

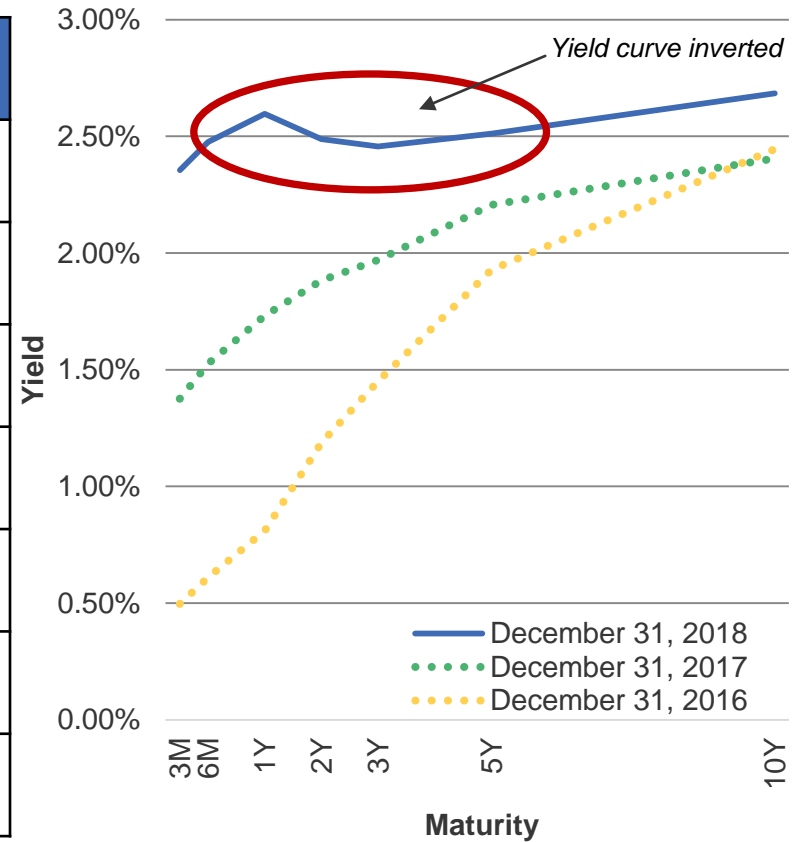


Source: Bloomberg, as of 12/31/2018.



U.S. Treasury Yield Curve

	4Q2018 12/31/18	4Q2017 12/31/17	4Q2016 12/31/16
3-month	2.35%	1.38%	0.50%
6-month	2.48%	1.53%	0.61%
1-year	2.60%	1.73%	0.81%
2-year	2.49%	1.88%	1.19%
3-year	2.46%	1.97%	1.45%
5-year	2.51%	2.21%	1.93%
10-year	2.68%	2.41%	2.44%



Source: Bloomberg, as of 12/31/2018.



Credit Spreads Widen with Market Volatility

- Volatility in equity markets in the fourth quarter caused an increase in demand for haven assets like Treasury bonds, widening credit spreads further to the highest level since 2016.

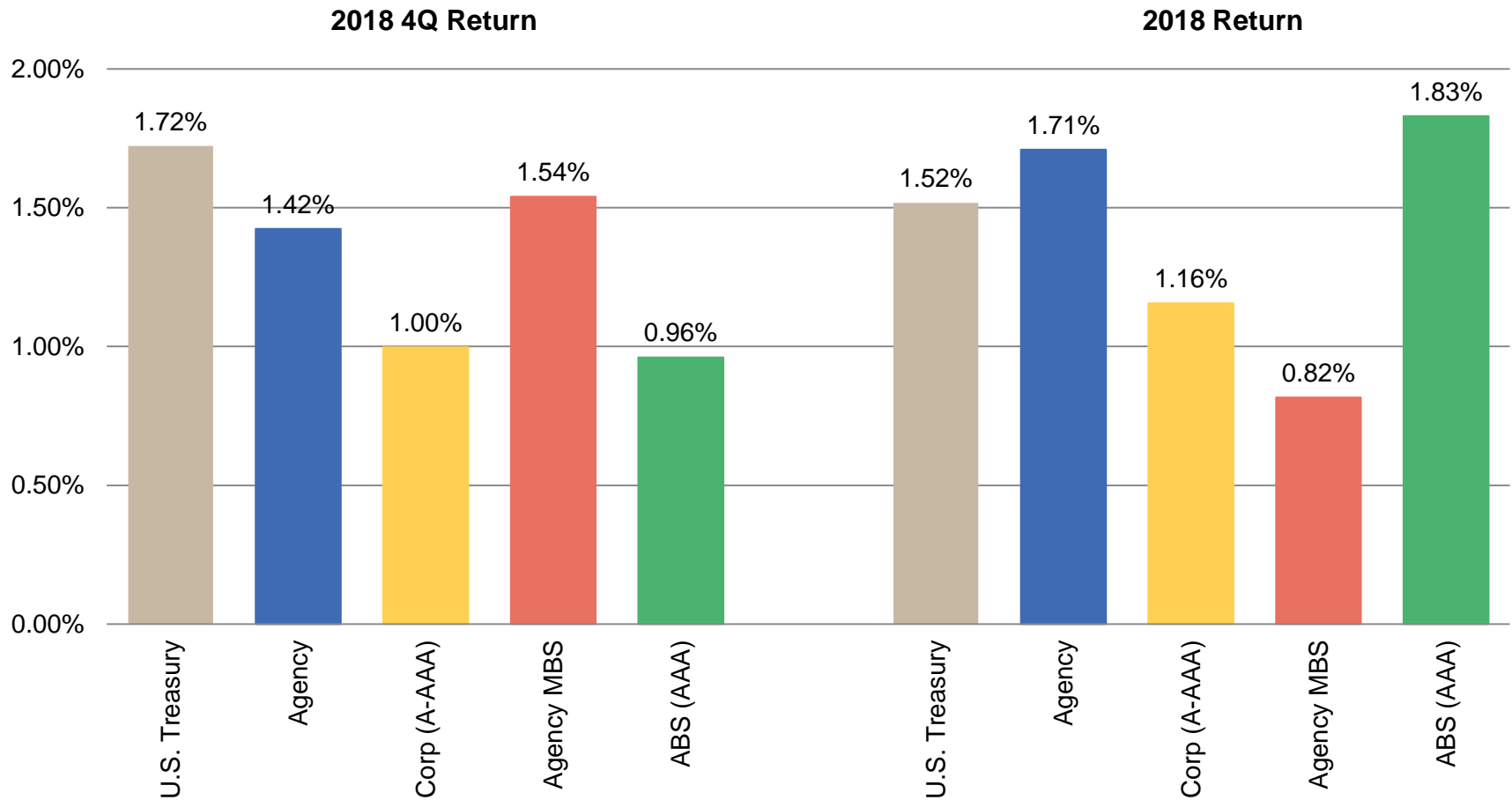
Yield Spread (OAS) of 1-5 Year AAA-A Corporate Index



Source: ICE BofAML Indices, as of 12/31/2018. OAS is option-adjusted spread versus a comparable-maturity Treasury.



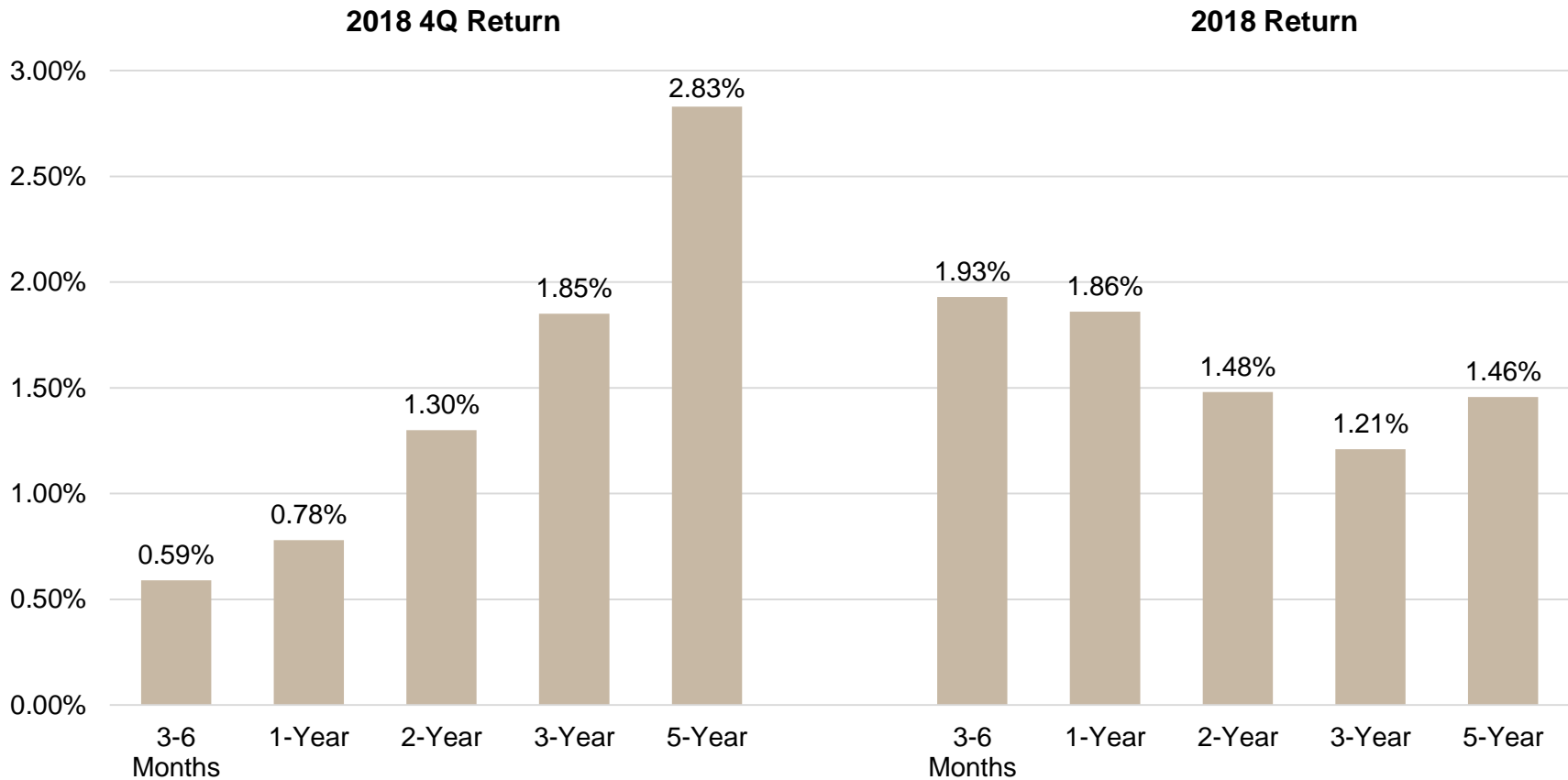
Fixed Income Sector Performance (1-5 Year Indices)



Source: ICE BofAML Indices, as of 12/31/2018. MBS and ABS indices are 0-5 year, based on weighted average life.



Fixed Income Maturity Performance (U.S. Treasury Sector)



Source: ICE BofAML Indices, as of 12/31/2018.



Portfolio Update



Fourth Quarter Portfolio Strategy

- Managing portfolio with a slightly conservative duration position relative to benchmark.
- Portfolio strategy was conservative and defensive in a period of heightened volatility and uncertainty.
- During the quarter we found relative value in:
 - U.S. Treasuries
 - Fourth quarter performance was led by the U.S. Treasury sector
 - Additions to the portfolio's Treasury sector helped to reduce relative underperformance versus the benchmark
 - Negotiable Certificates of Deposit & Commercial Paper
 - Spreads on negotiable bank certificates of deposit and commercial paper issuers rebounded in the fourth quarter from 12-month lows in the third quarter.
 - As a result, the portfolio benefited from additional allocations to these high-quality, short-term credit instruments at attractive yields.
 - Federal Agencies
 - As spreads widened between Treasuries and Federal Agencies, we found opportunities to add to the Agency sector, particularly with new issues.
 - Agencies outperformed credit sectors for the quarter.



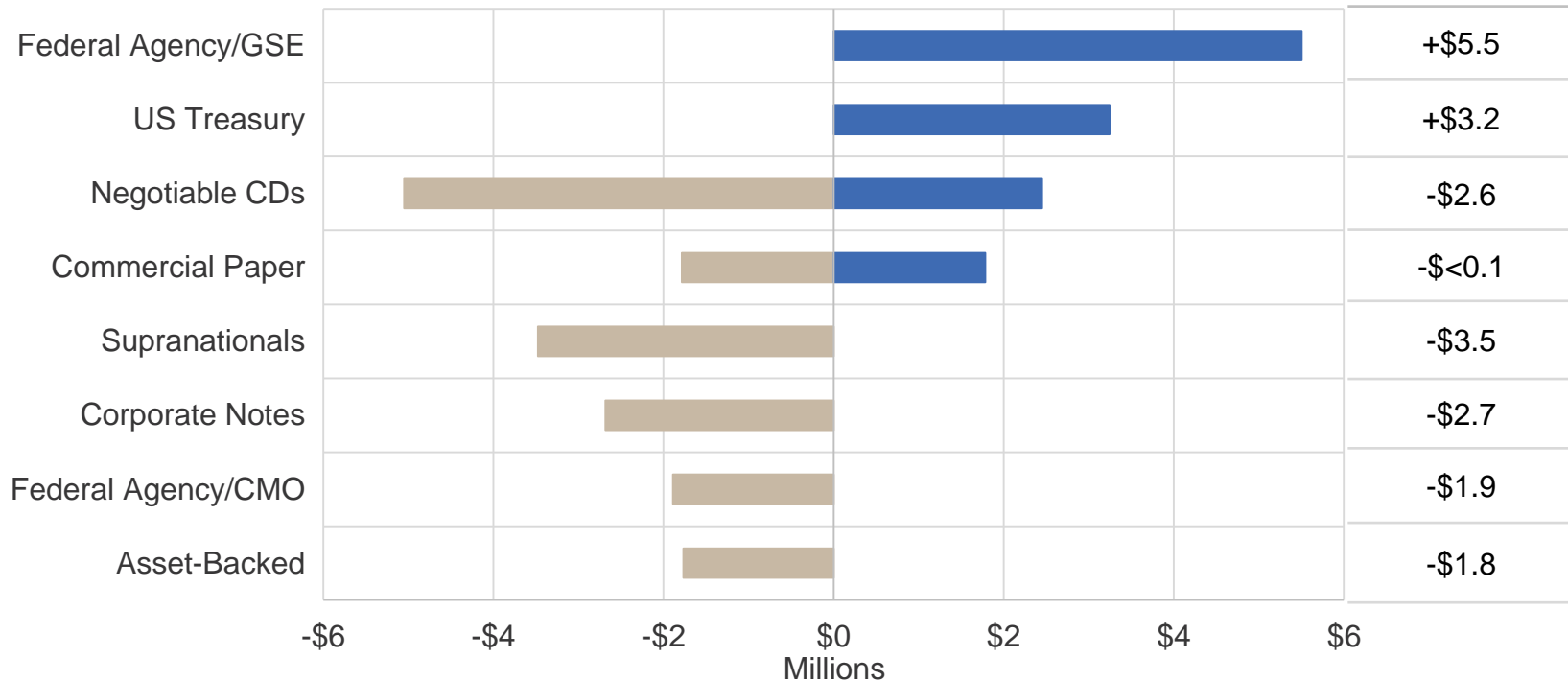
Summary of Trade Activity

Summary of Portfolio Trade Activity September 30, 2018 – December 31, 2018

■ Sales/Maturities

■ Purchases

Net Activity



◆ Purchases during the quarter totaled \$13 million and had an average yield of 3.02%

Based on par value of purchases, sells, maturities, and pay downs.

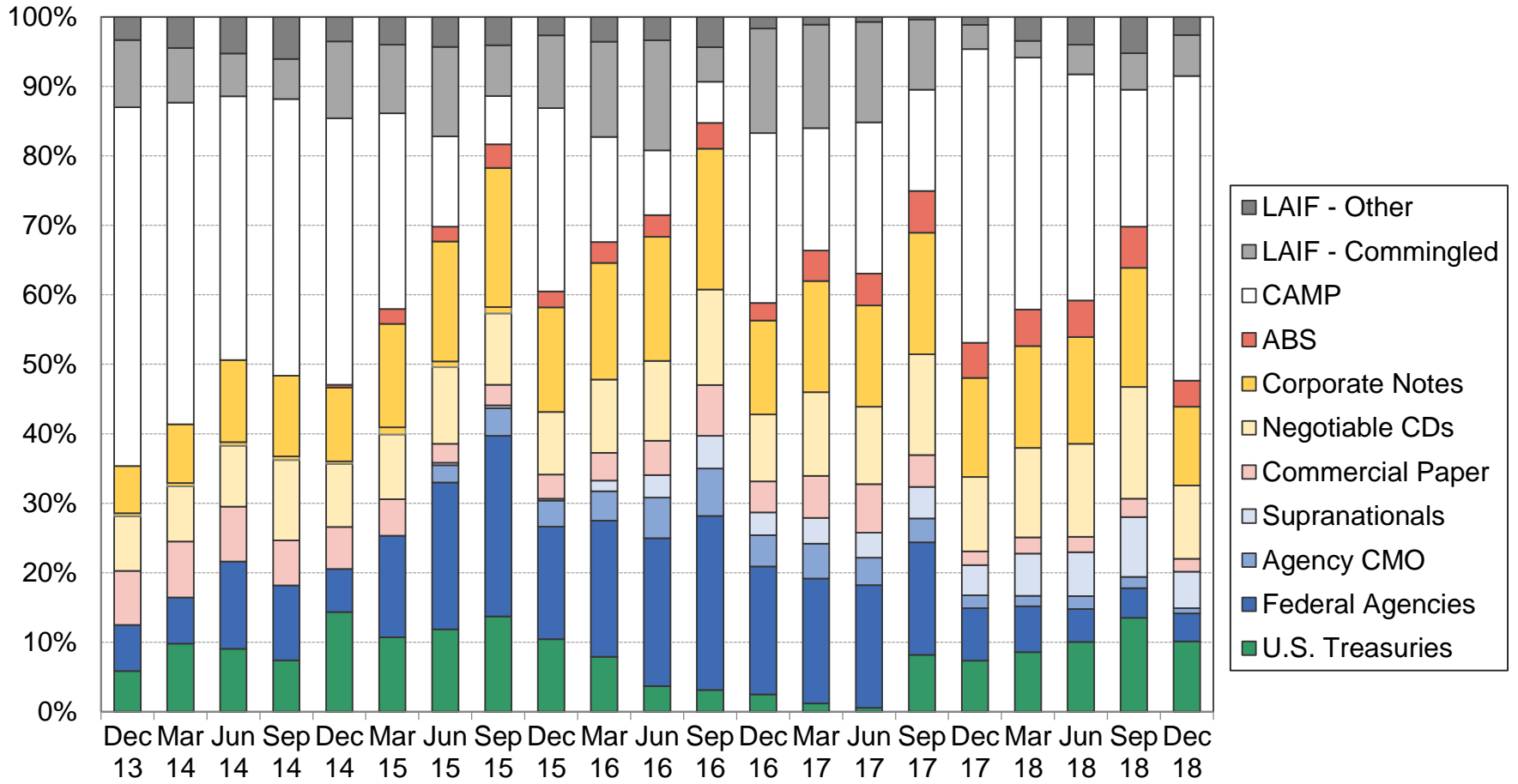


Portfolio Composition

Security Type	Market Value as of 12/31/18	% of Portfolio	% Change vs. 9/30/18	Permitted by Policy	In Compliance
U.S. Treasury	\$51,767,252	10.4%	-3.1%	100%	✓
Federal Agency	\$20,713,918	4.1%	-0.1%	100%	✓
Federal Agency CMOs	\$3,817,809	0.8%	-0.8%	100%	✓
Supranationals	\$27,059,533	5.4%	-3.2%	30%	✓
Negotiable CDs	\$54,179,764	10.9%	-5.2%	30%	✓
Corporate Notes	\$58,070,870	11.6%	-5.5%	30%	✓
Commercial Paper	\$9,442,369	1.9%	-0.8%	40%	✓
Asset-Backed Securities	\$19,159,122	3.8%	-2.1%	20%	✓
Securities Sub-Total	\$244,210,638	48.9%			
Accrued Interest	\$1,431,717				
Securities Total	\$245,642,355				
CAMP	\$224,881,023	45.0%	+25.3%	100%	✓
LAIF - Total	\$30,178,900	6.0%	-4.4%	\$65 million per account	✓
Total Investments	\$500,702,277	100.0%			



Adding Value Through Sector Allocation





Portfolio Issuer Distribution

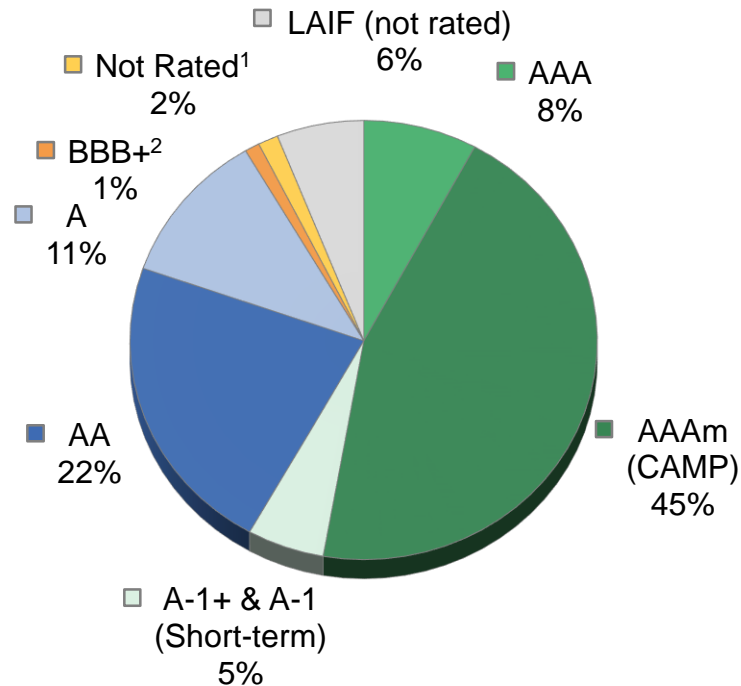
U.S. Treasury	21.2%	Apple Inc	1.4%
Intl Bank of Reconstruction and Dev	6.5%	JP Morgan Securities LLC	1.3%
Fannie Mae	5.5%	Canadian Imperial Bank of Commerce	1.3%
Freddie Mac	4.3%	JP Morgan Chase	1.2%
Credit Agricole	2.8%	Wells Fargo	1.2%
Svenska Handelsbanken	2.6%	Toyota Auto Receivables	1.2%
International Finance Corporation	2.5%	Bank of Tokyo Mitsubishi, U.S.	1.1%
American Express	2.4%	Credit Suisse	1.1%
Sumitomo Mitsui Bank	2.3%	IBM	1.1%
Toyota Motor Credit	2.1%	Visa	1.1%
Swedbank	2.1%	Bank of America	1.1%
Inter-American Development Bank	2.1%	LendingClub	1.1%
Honda Auto Receivables	2.1%	BB&T	1.0%
Skandinav Enskilda Banken NY	2.0%	Goldman Sachs (FDIC)	1.0%
American Honda Finance	2.0%	Cisco Systems	1.0%
Bank of New York	2.0%	BNP Paribas	0.7%
Ally Auto Receivables Trust	1.9%	Chevron Corp.	0.7%
Bank of Montreal Chicago	1.8%	United Parcel Service	0.6%
Westpac Banking Corp (NY)	1.8%	John Deere Owner Trust	0.6%
Hyundai Auto Receivables	1.8%	Berkshire Hathaway	0.5%
Bank of Nova Scotia Houston	1.8%	National Rural Utilities Cooperative Finance Corporation	0.4%
Exxon Mobil	1.7%	Nissan Auto Receivables	0.2%
Nordea Bank	1.6%	Federal Home Loan Bank	0.2%
UBS	1.6%	Unilever Capital Corp.	0.2%



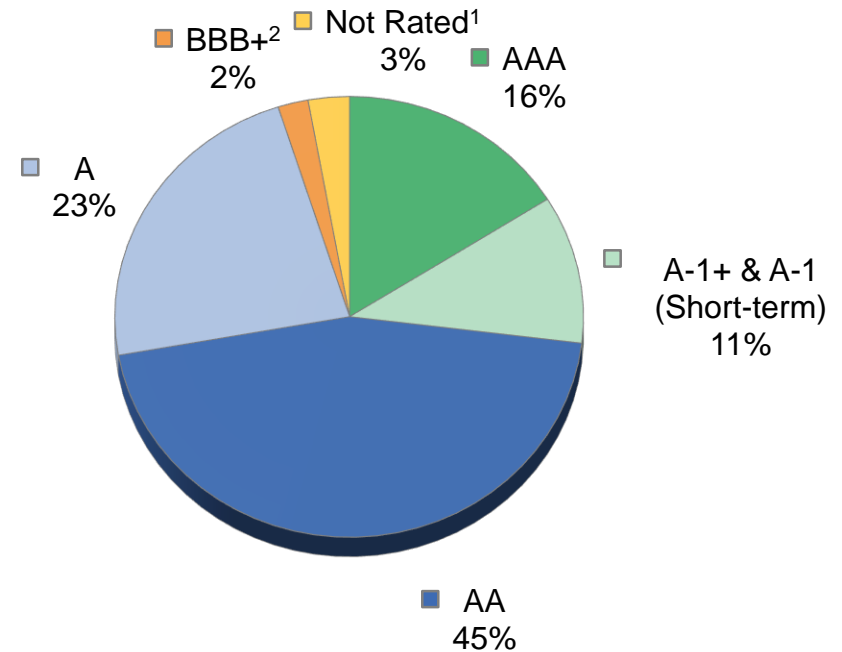
Portfolio Credit Quality

- ◆ The County's portfolio comprises high-quality securities.

Including Liquid Accounts



Excluding Liquid Accounts



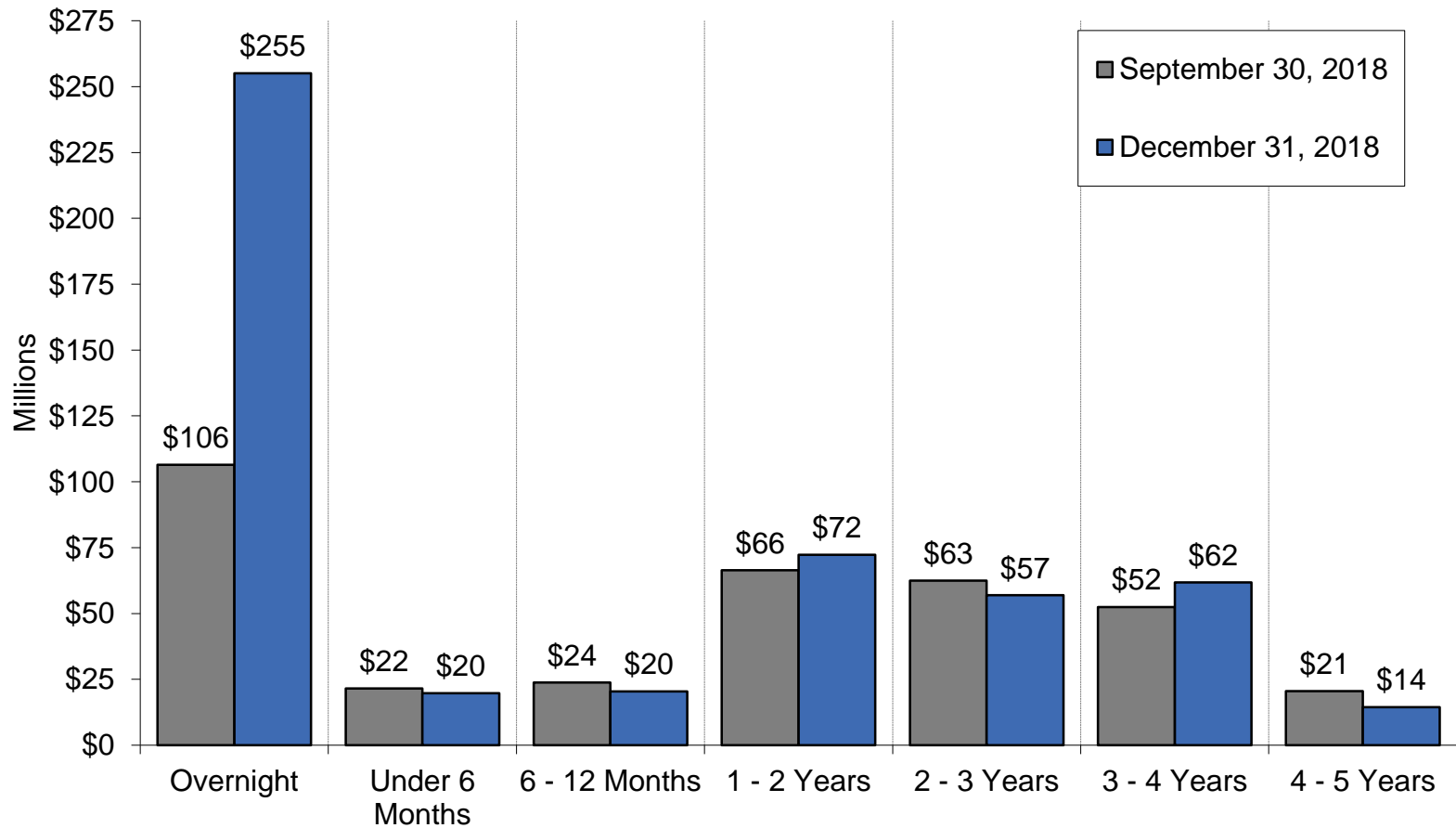
As of December 31, 2018. Percentages may not sum to 100% due to rounding.
Ratings are based on Standard & Poor's.

1. The "Not Rated" category comprises asset-backed securities rated Aaa by Moody's.

2. The "BBB+" category comprises securities rated in a rating category of A or better by at least one NRSRO.



Portfolio Maturity Distribution



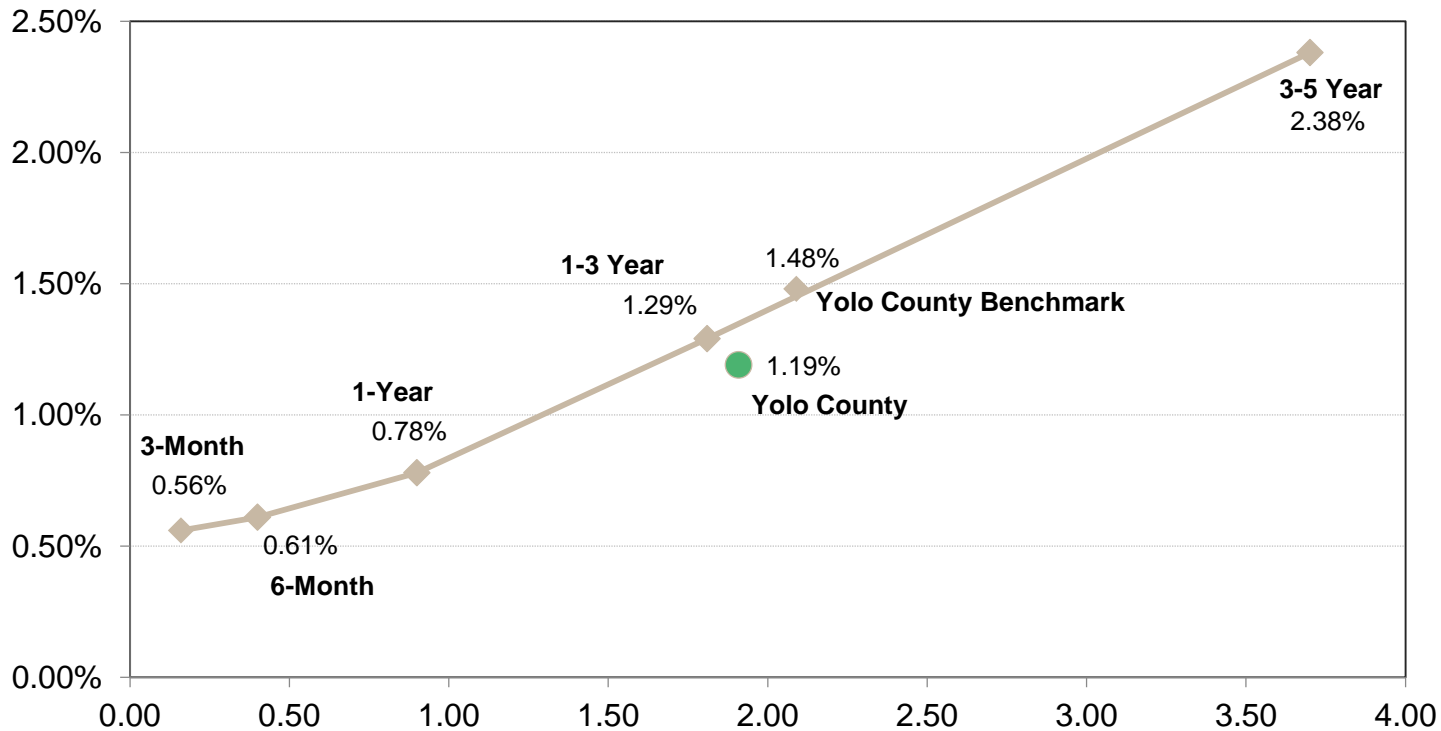
Callable and floating-rate securities are included in the maturity distribution analysis to their stated maturity date.



Longer-Duration Strategies Outperformed as Rates Fell in Fourth Quarter

Quarterly Total Returns

Yolo County, Yolo County Benchmark, and Various ICE BofA Merrill Lynch Treasury Indices



Yields

Portfolio Yield and LAIF Quarterly Apportionment Rate	
Yolo County	2.22%
LAIF	2.40%

- For periods ending December 31, 2018
- Yolo County yield is the weighted average yield at cost
- Source: Bloomberg, LAIF website.
- The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.



Total Return Performance

- Falling interest rates resulted in strong absolute returns for all fixed income sectors.
- The Portfolio underperformed the benchmark for the quarter due to a flight to quality resulting in widening yield spreads and a conservative duration position.
- Historically, the Portfolio continues to outperform the benchmark by a wide margin.

Total Return For periods ended December 31, 2018

	Duration (years)	Past Quarter	Past 1 Year	Past 5 Years	Past 10 Years	Since Inception
Yolo County	1.91	1.19%	1.70%	1.03%	1.29%	3.10%
Treasury Benchmark	2.09	1.48%	1.61%	0.67%	0.64%	2.45%

- Performance on a trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Bank of America Merrill Lynch indices provided by Bloomberg Financial Markets.
- Inception date is June 30, 1998.
- Performance, yield, and duration calculations exclude holdings in CAMP, LAIF, and the money market fund.
- The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.



Earnings Analysis

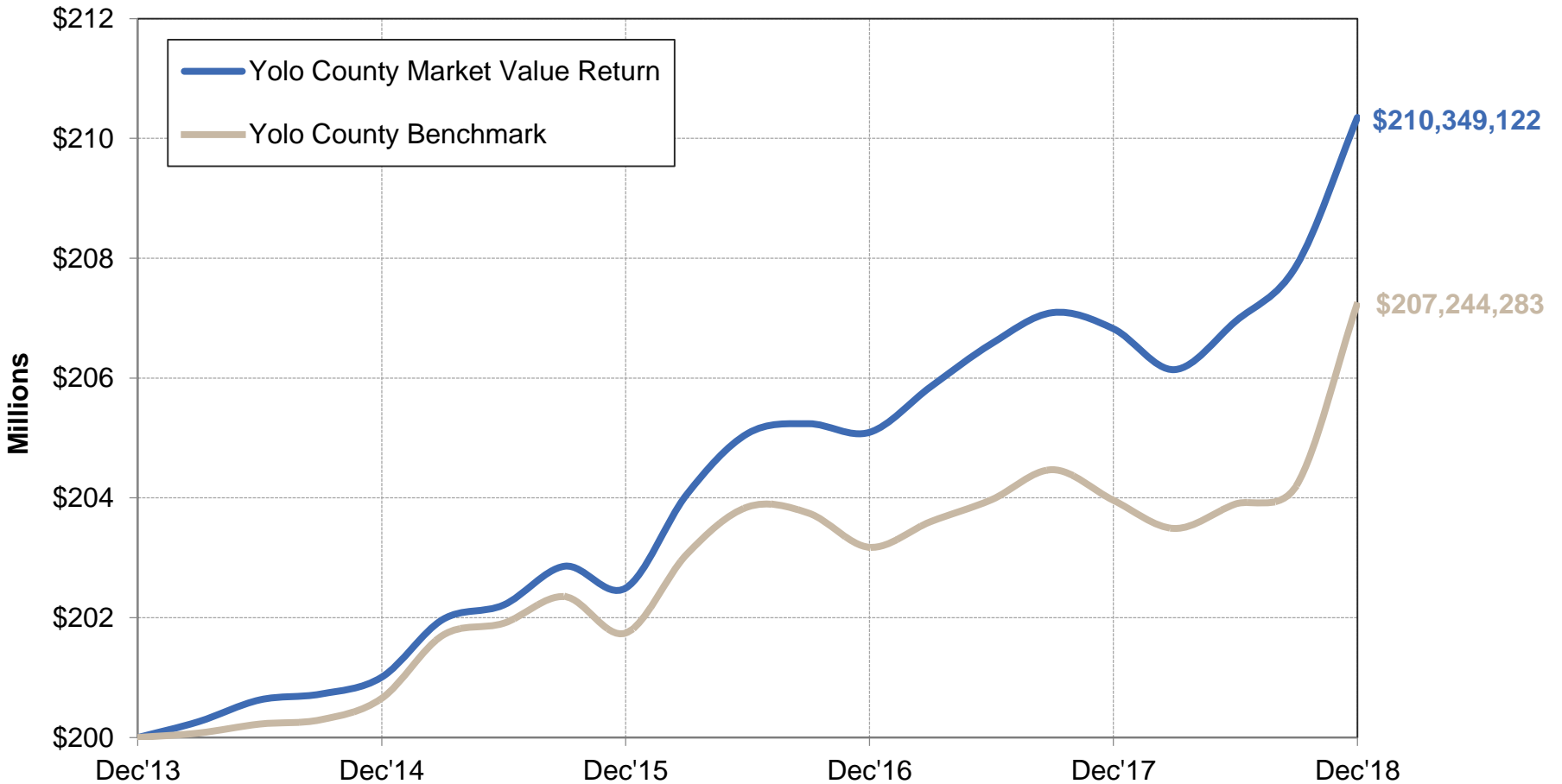
As of December 31, 2018

Period	Q1 18	Q2 18	Q3 18	Q4 18	12-Mo. Totals
Interest Earned	\$1,155,071	\$1,217,773	\$1,263,935	\$1,270,176	\$4,906,955
Change in Value	(\$165,844)	(\$353,615)	(\$123,550)	\$44,993	(\$598,016)
MV Portfolio Earnings	\$989,227	\$864,157	\$1,140,385	\$1,315,169	\$4,308,938
Total Return	-0.33%	0.39%	0.45%	1.19%	1.70%
Change in 2-Yr Treasury	0.40%	0.38%	0.26%	0.29%	-0.33%

- Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Quarterly returns are presented on an unannualized basis.
- May not sum to total due to rounding.



County's Strategy Continues to Be Effective



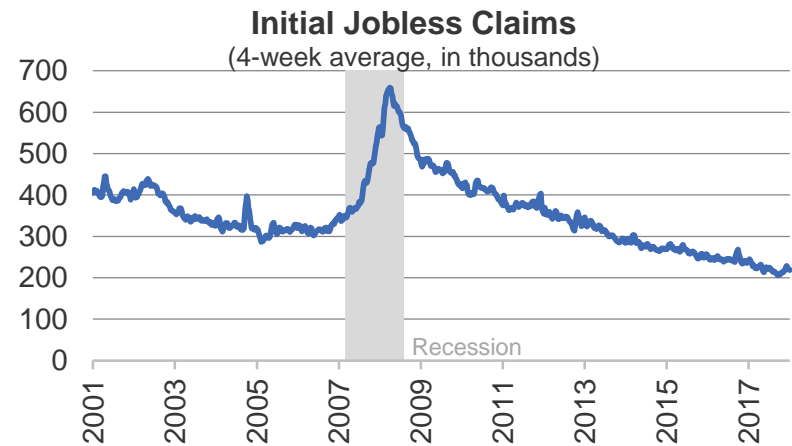
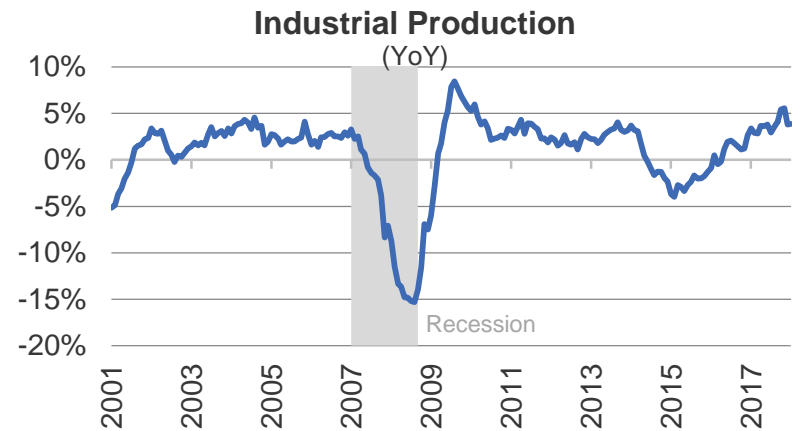
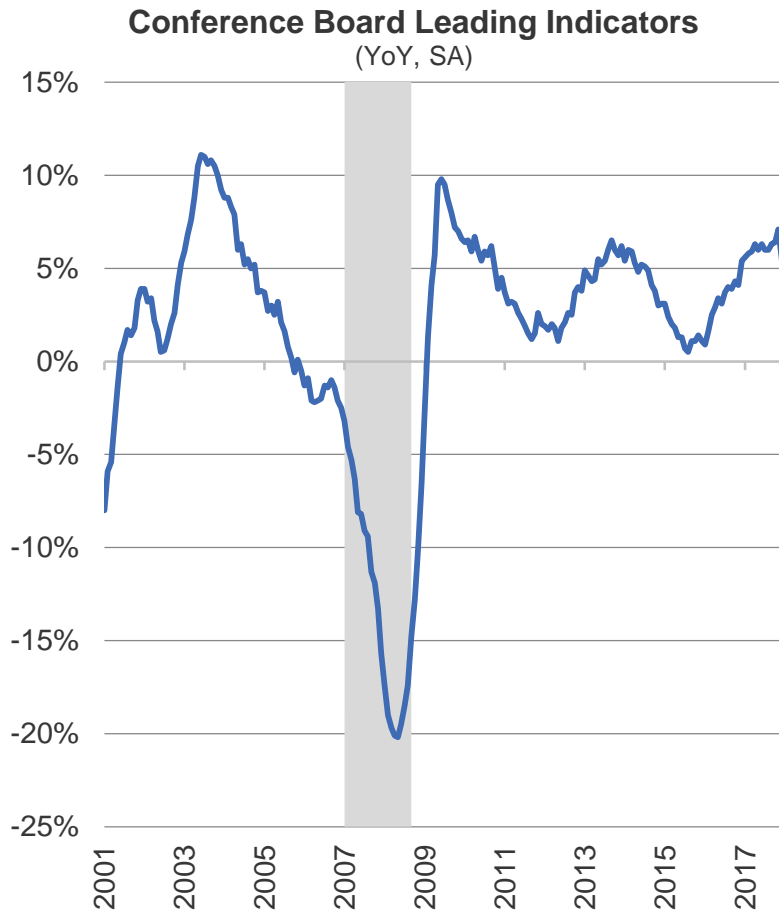
- Source: Bloomberg.
- Hypothetical growth of \$200 million.
- Past performance is not indicative of future performance.



Outlook



U.S. Recession Indicators: Risks Appear Low in the Near Term



Source: Bloomberg, latest data available as of 12/31/2018. SA is seasonally adjusted.



The Fed's Latest (December) Economic Projections Less Optimistic

Indicator	2018		2019		2020		2021		Longer run	
	Sept.	Dec.	Sept.	Dec.	Sept.	Dec.	Sept.	Dec.	Sept.	Dec.
Real GDP (YoY)	3.1%	3.0%	2.5%	2.3%	2.0%	2.0%	1.8%	1.8%	1.8%	1.9%
Unemployment Rate	3.7%	3.7%	3.5%	3.5%	3.5%	3.6%	3.7%	3.8%	4.5%	4.4%
PCE Inflation (YoY)	2.1%	1.9%	2.0%	1.9%	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%
Core PCE (YoY)	2.0%	1.9%	2.1%	2.0%	2.1%	2.0%	2.1%	2.0%	-	-
Federal Funds Rate (Median)	2.4%	2.4%	3.1%	2.9%	3.4%	3.1%	3.4%	3.1%	3.0%	2.8%

Source: Federal Reserve, as of December 2018. Green denotes an improved projection in December compared to September, red for lower projection.



Investment Strategy Outlook

- ◆ The Federal Reserve is recalibrating monetary policy, reducing the number of expected rate hikes for 2019.
 - As a result, we are less defensive about rates and plan to increase portfolio duration.
 - Manage portfolio duration to be closer to the benchmark.
- ◆ Current challenges to finding value in the market include:
 - Extremely flat to inverted yield curve
 - Volatile markets
 - Heightened risk from political gridlock
- ◆ Corporate spreads continued to widen in November and December.
 - Wide spreads create opportunities to add corporates at more attractive levels.
 - We also find continued value in asset-backed securities.
- ◆ Our 2019 strategy will emphasize income over anticipated changes in market value.
- ◆ Broad diversification across all investment-grade sectors remains a key component of our portfolio strategy while maintaining a high credit quality for the County's portfolio.



Disclosures

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