



SAN MATEO COUNTY TRANSPORTATION AUTHORITY

Investment Performance Review For the Quarter Ended September 30, 2016

Client Management Team

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Quarterly Investment Report
November 3, 2016
Agenda Item 10a



Portfolio Compliance & Sector Allocation For the Quarter Ended September 30, 2016

<u>Security Type</u>	<u>September 30, 2016</u>	<u>% of Portfolio</u>	<u>Permitted by Policy</u>	<u>Average Credit Rating</u>
U.S. Treasury	\$78,269,609	49.9%	100%	AA+
Federal Agency/GSE	\$70,804,415	45.1%	100%	AA+
Money Market Fund	\$4,297,778	2.7%	20%	AAAm
Federal Agency/CMO	\$3,531,744	2.3%	100%	AA+
Totals	\$156,903,546	100.0%		

Statement of Compliance

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

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Portfolio Earnings and Return For the Quarter Ended September 30, 2016

- At quarter end, the portfolio's yield at cost, which is the annualized rate of return based on original cost if the portfolio is held to maturity, was 1.03%.
 - Over the quarter, the Authority earned \$748,409 compared with \$250,608 for same period last year.
- The portfolio's total return for the quarter was -0.10%. The portfolio performed well relative to the benchmark amid declining market values caused by the rise in interest rates (market values move inversely to the direction of interest rates).
- A benchmark is a predetermined set of securities used for comparison purposes. Portfolio performance is measured against the benchmark's performance. The Authority's portfolio performed 2 basis points higher than the benchmark's return of -0.12%.

	<u>Yield to Maturity</u>		<u>Duration</u>	<u>Performance</u>		
	Cost	Market	(Years)	3 Months	1 Year	Since Inception*
San Mateo County Transportation Authority	1.03%	0.87%	2.31	-0.10%	1.25%	1.06%
Performance Benchmark	--	0.81%	2.16	-0.12%	1.58%	1.38%

As of September 30, 2016.
*Since March 31, 2015.

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Portfolio Strategy For the Quarter Ended September 30, 2016

1st Quarter 2017 Summary

- I. Market Direction
 - Treasury yields drifted modestly higher during the third quarter as early-quarter Brexit fears faded and U.S. economic data rebounded.
- II. Transportation Authority
 - Third Quarter Actions
 - We revised the Authority's investment policy.
 - We increased the duration of the portfolio to that of the benchmark in order to reduce potential performance mismatches given the uncertain rate environment.
 - We increased the allocation to federal agencies and maintained a modest amount of mortgage-backed securities (MBS).

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Portfolio Strategy For the Quarter Ended September 30, 2016

Investment Strategy Outlook

▪ Fourth Quarter Strategy

- Our primary objectives of the Authority's investment activities, in priority order, shall be safety of principal, liquidity, and return.
- We will continue to monitor incoming economic data to assess and confirm the prospect for a Fed rate hike by year-end. In the near-term, the upcoming U.S. Presidential election could be a source of market value fluctuations.
- We plan to keep the duration and maturity distribution of the portfolios generally in line with the distribution of the benchmark, except where shifting to short-term credit securities offers higher risk-adjusted yields.
- Our strategy will favor broad allocation to various credit sectors, including corporate notes, commercial paper, and negotiable bank CDs since credit sectors continue to provide incremental yield, a key contributor to return in a low rate environment.

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