Attachment II

pfm

City of Hayward

2017-2018 Year-End Portfolio Review

Monique Spyke, Managing Director
Izac Chyou, Senior Managing Consultant

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PFM Asset Management LLC

50 California St.
Suite 2300
San Francisco, CA 94111

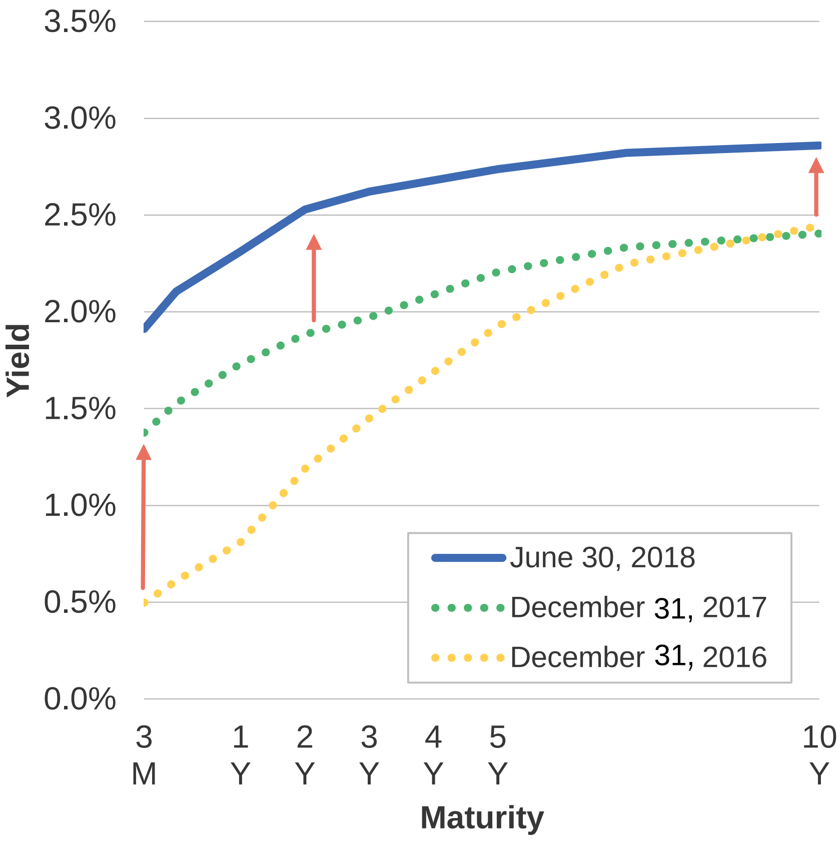
415.982.5544
pfm.com

Current Market Themes

- Economic conditions characterized by:
  - Moderate economic growth
  - Continued labor market strength
  - Inflation at Fed target and wage inflation is increasing
- Short-term yields increased following the additional Fed rate hike; long-term yields fell amid lower inflation expectations.
- Geopolitical risks, trade war with China, caused an increase in input costs, mainly for manufacturers.

U.S. Treasury Yield Curve

	6/30/18	6/30/17	6/30/16
3 month	**1.91%**	1.01%	0.25%
6 month	**2.10%**	1.13%	0.35%
1 year	**2.31%**	1.23%	0.44%
2 year	**2.53%**	1.38%	0.60%
3 year	**2.62%**	1.55%	0.71%
5 year	**2.74%**	1.89%	1.02%



Source: Bloomberg, as of 6/30/2018.

Fiscal Year 2018 Accomplishments

- Enhanced earnings[1]
  - Investment income rose to **$1.46 million**
  - Portfolio yield rose to **1.76%**
- Outperformed performance benchmark by **+18** basis points in a rising rate environment[2]
- Maintained a diversified portfolio
- Maintained compliance with City's investment policy
- Kept City staff informed of events impacting investment program

Key Investment Strategies

✓ Downside risk management

- Invest in high-quality assets
- Manage interest rate risk

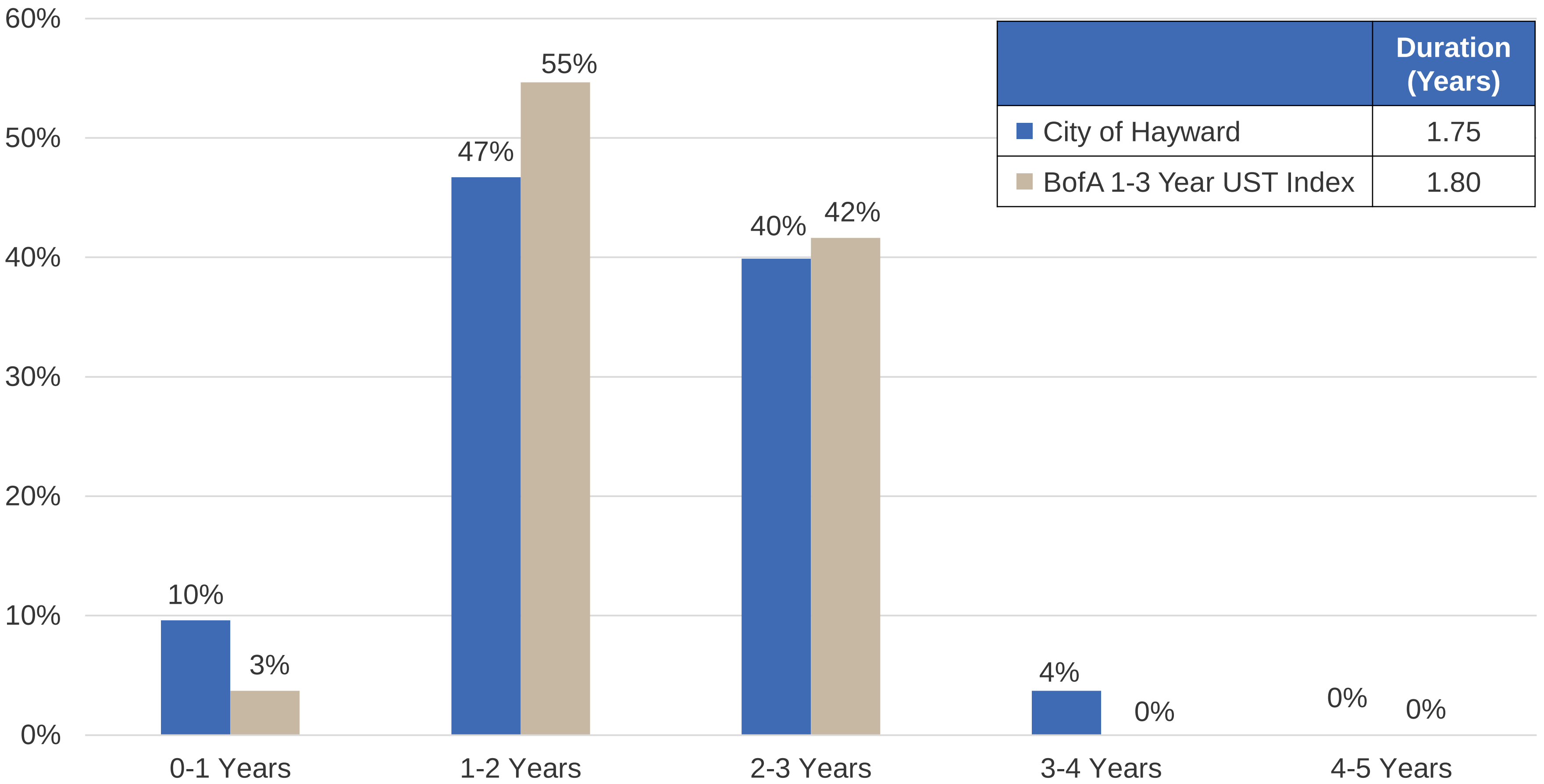
1. As of 06/30/2018. Aggregate fiscal year income on an accrual (amortized cost) basis. Yield to maturity at cost.
2. Hayward one year total return versus the performance benchmark, which is the Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index.

Portfolio Composition

Security Type	Market Values as of 6/30/18	Percent of Portfolio	Permitted by Policy	In Compliance
U.S. Treasury	$55,321,269	18%	100%	✓
Federal Agency	$27,666,857	9%	100%	✓
Federal Agency CMOs	$6,323,866	2%	20%	✓
Municipal Bonds	$4,425,102	1%	20%	✓
Supranationals	$9,132,525	3%	30%	✓
Negotiable CDs	$8,407,951	3%	30%	✓
Corporate Notes	$6,960,104	2%	30%	✓
Asset-Backed Securities	$2,453,424	1%	20%	✓
Security Sub-Total	**$120,691,098**	**40%**		
Accrued Interest	$407,378			
Securities Total	**$121,098,476**			
LAIF	$126,577,593	42%	$195 Million[1]	✓
Bank of West	$54,542,989	18%	100%	✓
Total Investments	**$302,219,057**	**100.0%**		

1.The maximum allowable LAIF balance is $65 million per account. LAIF City: $58.8 million. LAIF HPFA: $27.4 million. LAIF Housing: $40.4 million
LAIF balance provided by the Client
As of June 30, 2018
Investment Policy as approved of December 5, 2017

Portfolio Maturity Distribution

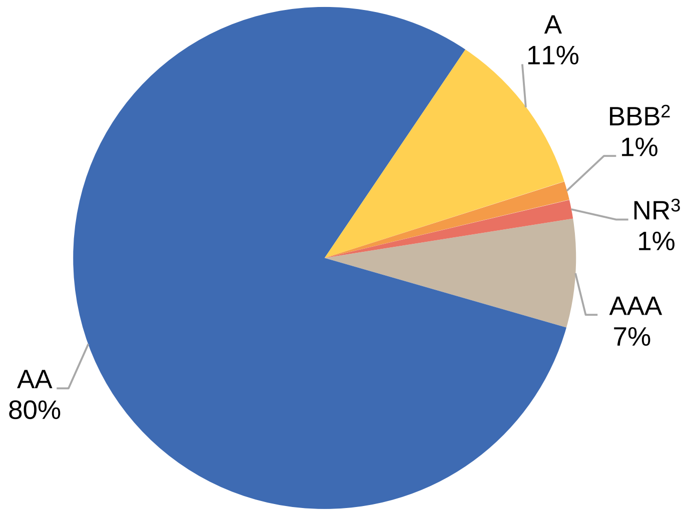


	Duration (Years)
City of Hayward	1.75
BofA 1-3 Year UST Index	1.80

Source: Bloomberg, as of 06/30/2018. Excludes holdings in LAIF, Bank of West and the money market fund.

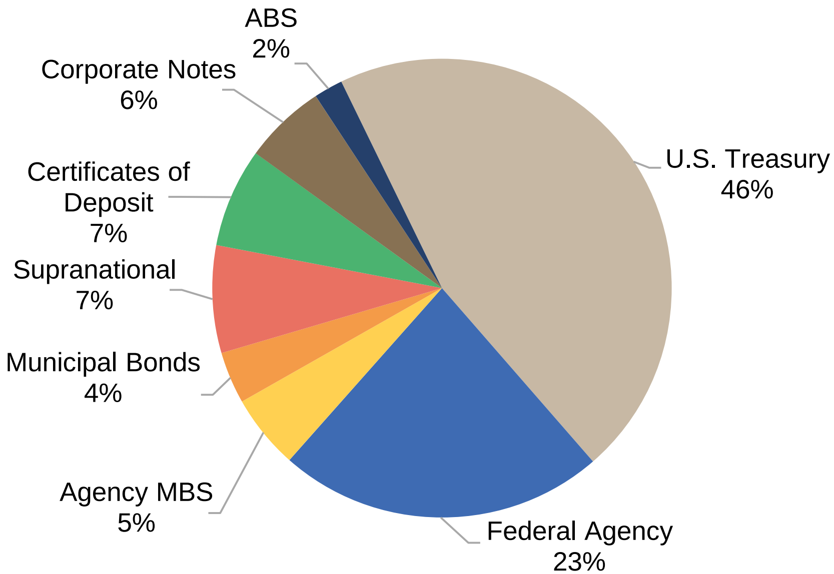
Portfolio Characteristics as of June 30, 2018

Credit Quality[1]



Average Credit: AA[4]

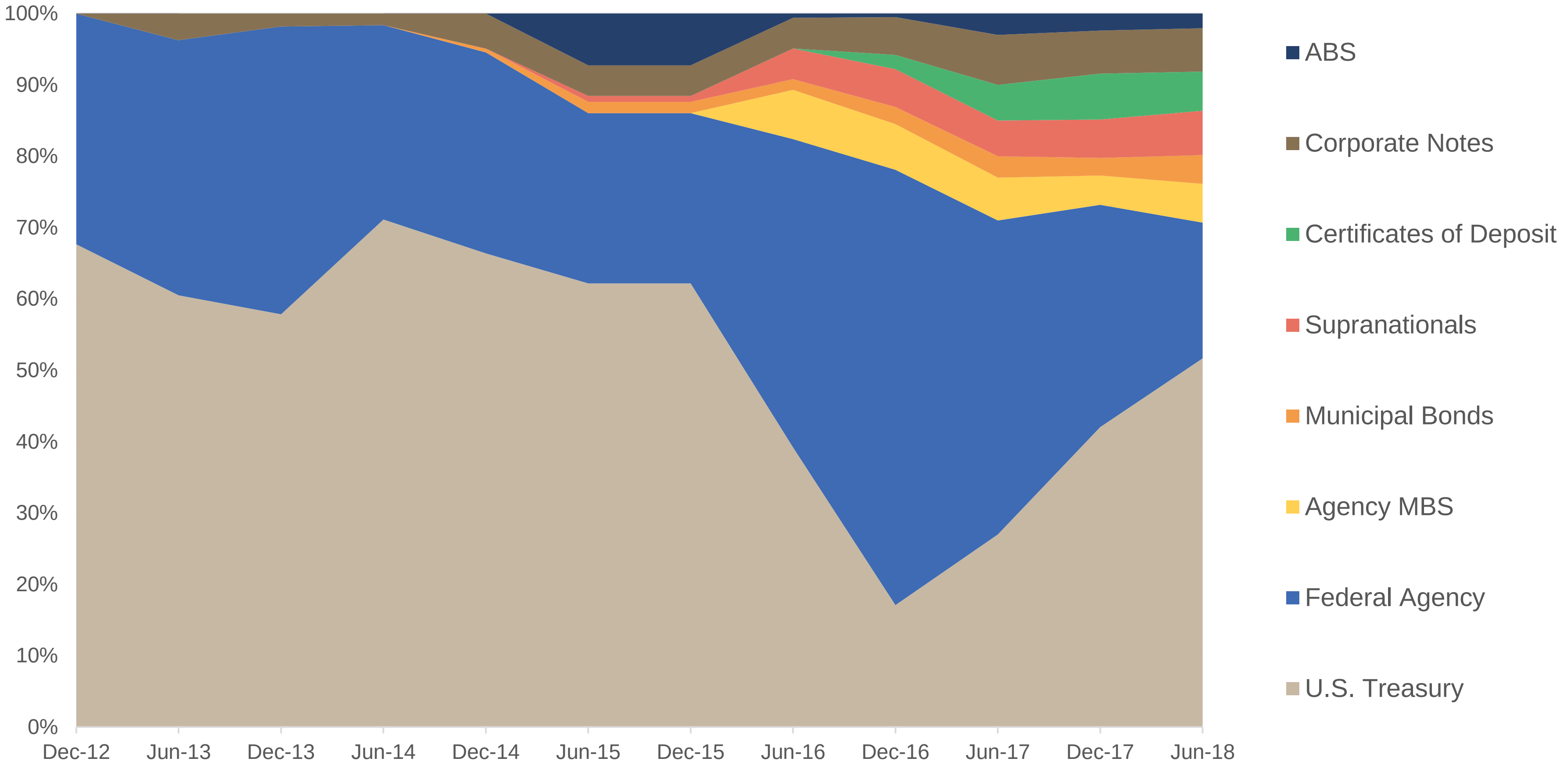
Sector Allocation



Portfolio Compliant with Investment Policy

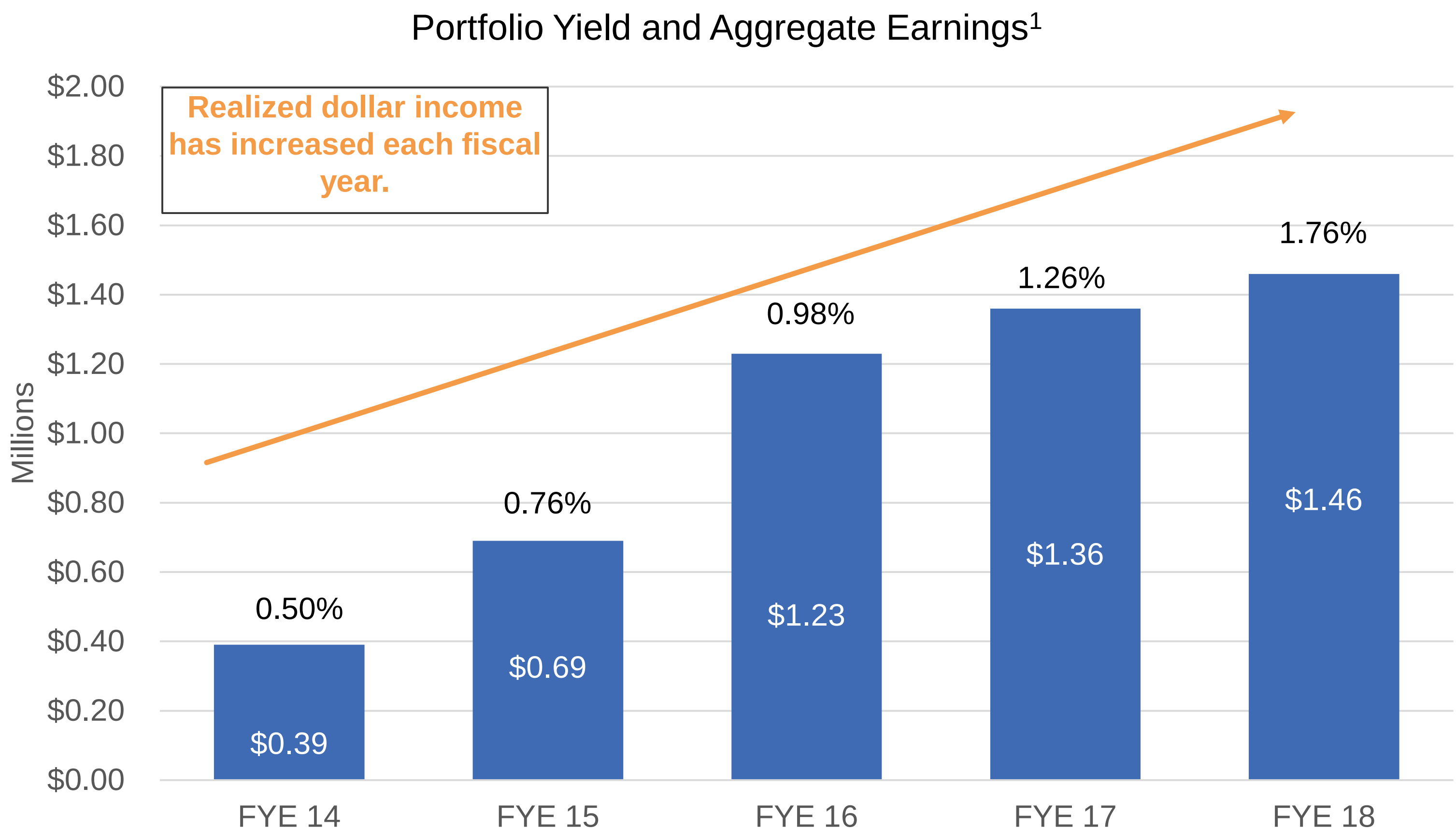
Percentages may not sum to 100% due to rounding.
1. Ratings are based on Standard & Poor's, if provided. If Standard & Poor's ratings are not provided, ratings by Moody's and/or Fitch are used.
2. Citigroup rated A by Fitch. Goldman Sachs rated A3 by Moody's.
3. CA Earthquake Authority rated A3 by Moody's. Carmax Auto Owner Trust, John Deere Owner Trust, Honda Auto Receivables, Nissan Auto Receivables, and Ally Auto Receivables Trust rated Aaa by Moody's.
4. An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Adding Value Through Sector Allocation



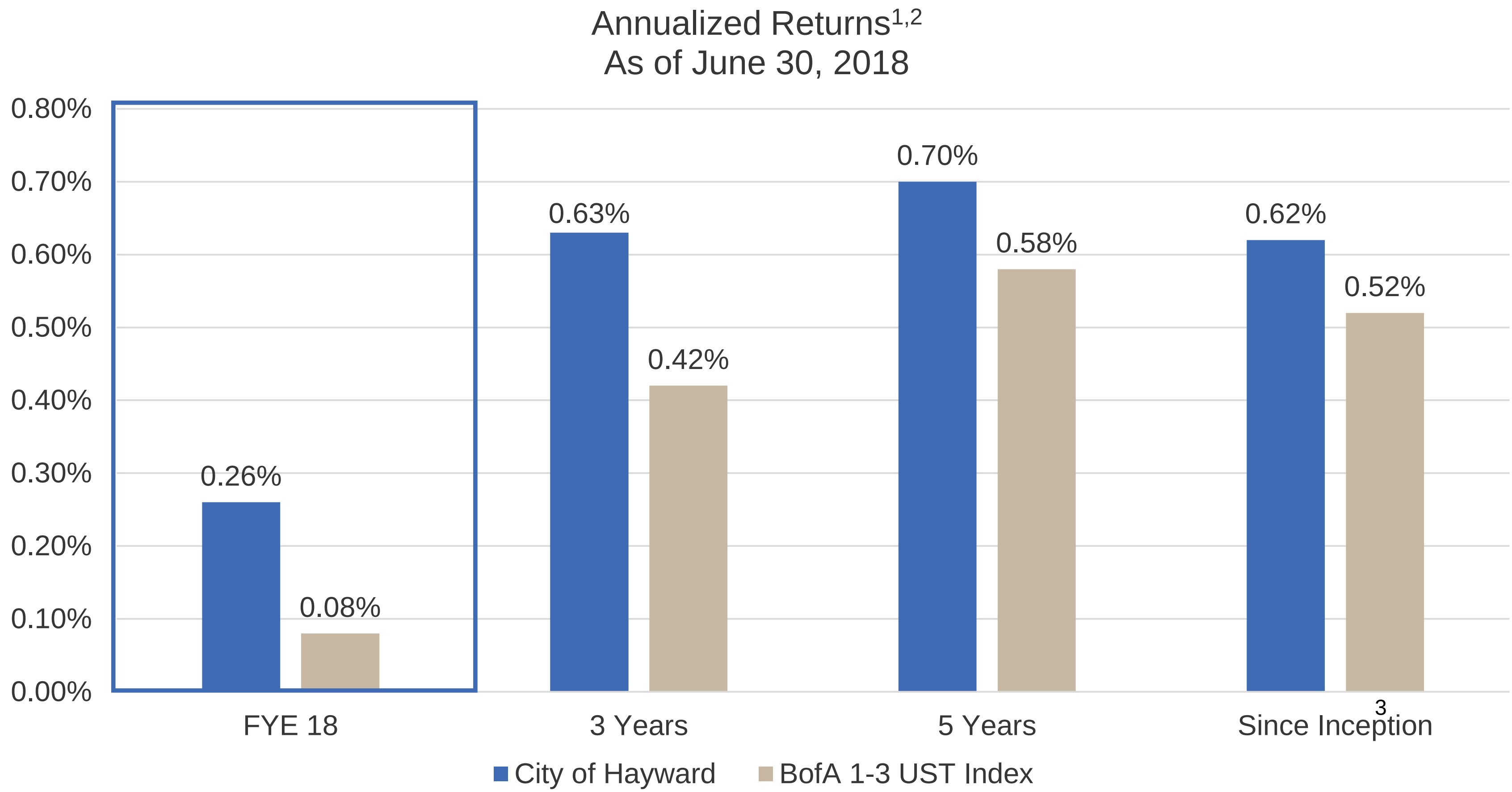
Percents exclude accrued interest as of trade date. Portfolio holdings as of 06/30/2018.
Portfolio inception date: 06/30/2012.

Portfolio Income Continues to Increase



1. Aggregate fiscal year income on an accrual (amortized cost) basis. Yield to maturity at cost.

Portfolio Outperforms



1. Source: Bloomberg, as of 06/30/2018.
2. Performance on trade date basis. Excludes holdings in LAIF, Bank of West and the money market fund..
3. Portfolio inception date as of 06/30/2012.

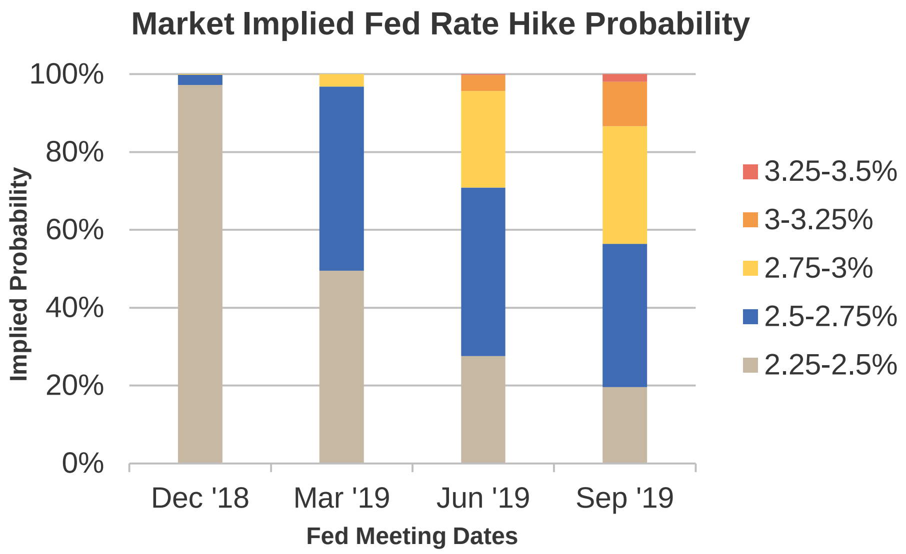
The Fed’s Updated Economic Projections are Optimistic

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

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

2019 Outlook and Strategy

- We expect modest economic growth in the near term
- Additional rates hikes may be on the horizon



Source: Bloomberg, as of 9/30/2018.

Strategy Highlights

- ✓ Assess impact of future fiscal and monetary policy
- ✓ Maintain neutral duration position
- ✓ Monitoring potential for a cyclical change
- ✓ Diversify credit exposure in the portfolio
- ✓ Identify market opportunities

Disclosures

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