

City of Hayward 2016 Investment Program Review

Monique Spyke, Director
spykem@pfm.com
415-982-5544
www.pfm.com



Economic Update

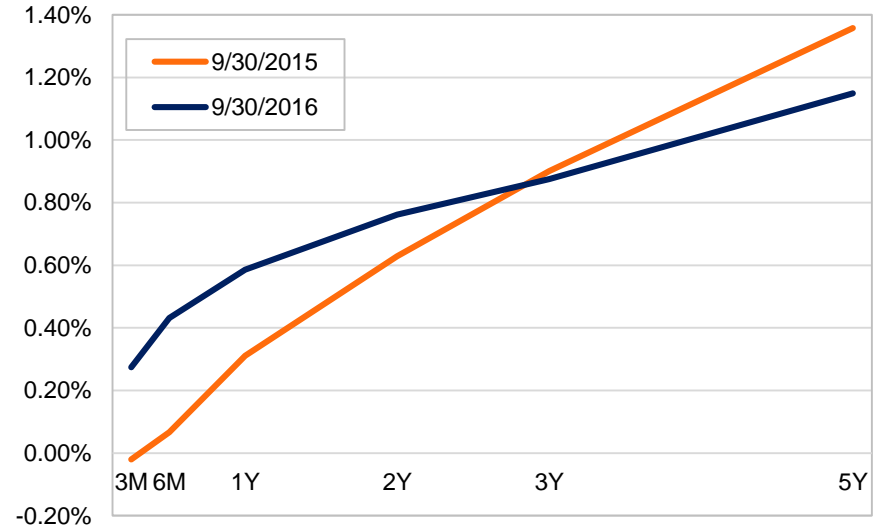
Attachment I

- Treasury yields moved up and down in response to evolving economic conditions, tracking in part (i) the strength of global economy, (ii) the persistent low inflation environment, and (iii) the expectations for a Fed rate hike.
- Low inflation and tepid economic data, both in the U.S. and abroad, pushed longer-term yields lower.
- FOMC officials continue to condition investors for a rate hike before the end of the year.

2-Year U.S. Treasury Yield
September 2015 – September 2016



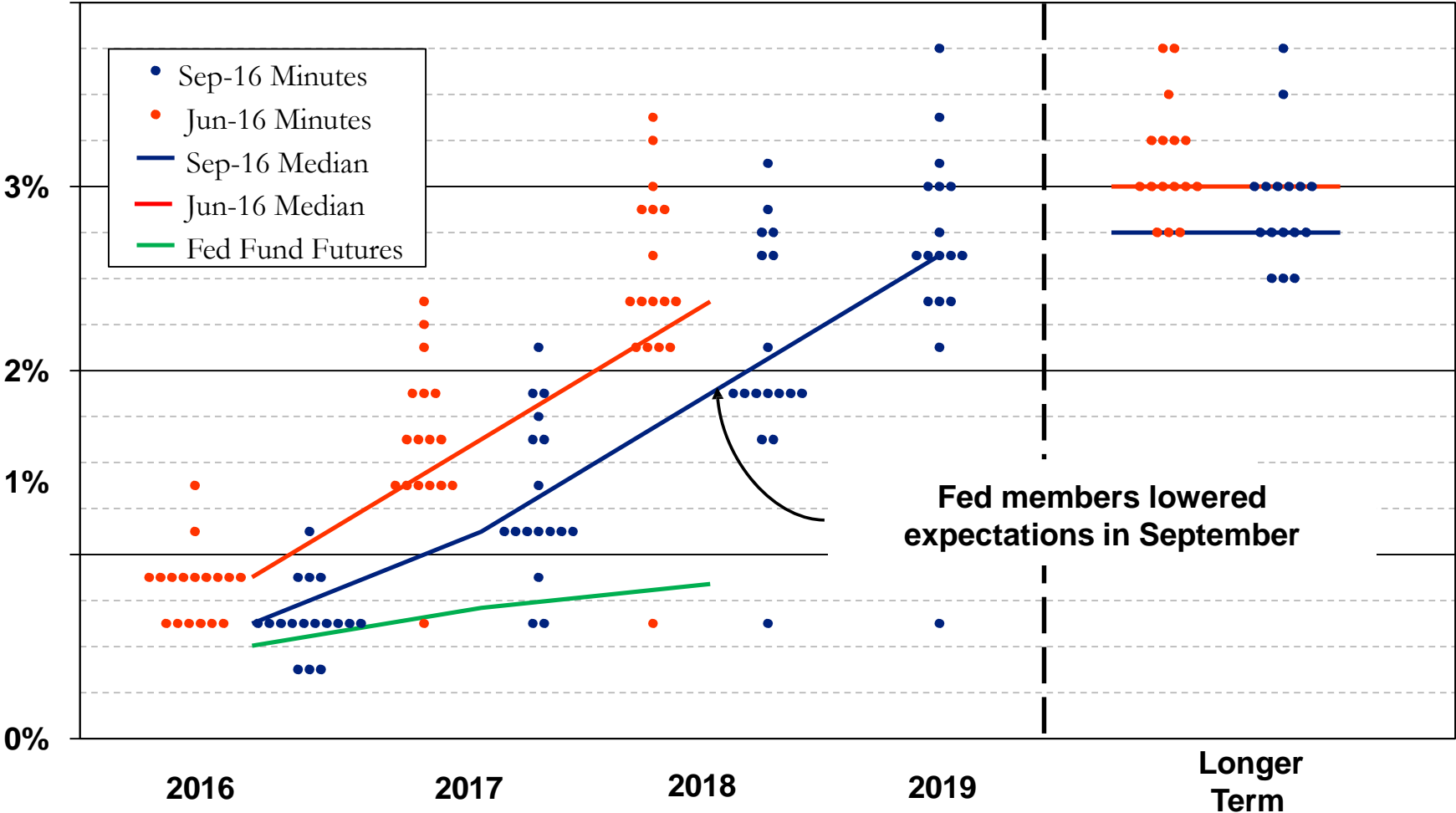
U.S. Treasury Yield Curve
September 30, 2015 vs. September 30, 2016



Source: Bloomberg.

FOMC Dot Plot

Attachment I

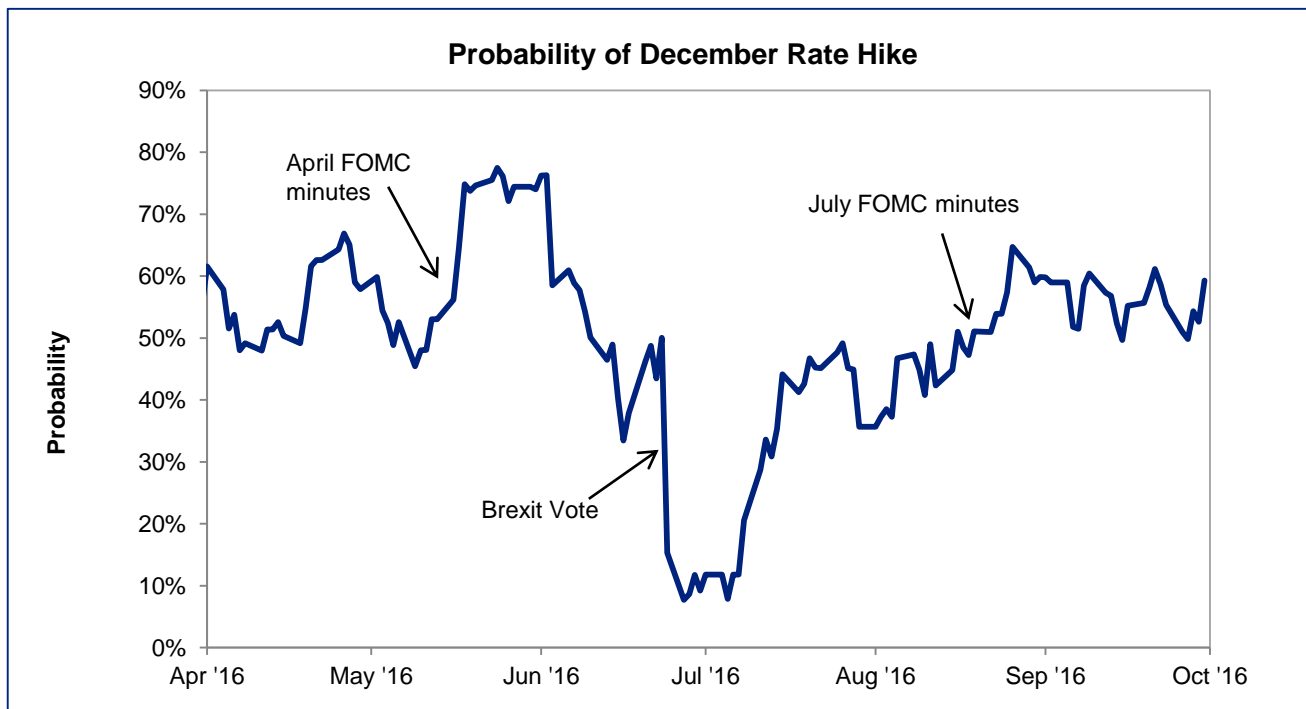


Source: FOMC; Fed Funds Futures as of 09/20/2016. Individual dots represent each of the 17 FOMC members' judgment of the midpoint of the appropriate target range for the federal funds rate.

Market Outlook for the Fed Funds Target Rate

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- There is a strong consensus of a Fed hike in December 2016, as the first rate hike since December 2015.
- Fed Chair Janet Yellen hinted at a rate hike during the third quarter when she mentioned the “case for an increase in the federal funds rate has strengthened in recent months.”



Source: Bloomberg. "Current Outlook" as of October 7, 2016.

Investment Program Achievements

Attachment I

- Managed portfolio to the City's objectives of:
 - Safety
 - Liquidity
 - Yield
- Increased diversification of portfolio with high-quality assets.
- Kept portfolio duration modestly shorter than the benchmark in anticipation of a Fed rate hike some time before the end of this year.
- Monitored portfolio holdings and credit issuers on a daily basis.
- Provided timely economic, legislative, and market information.

Overview of Accomplishments for the City

Attachment I

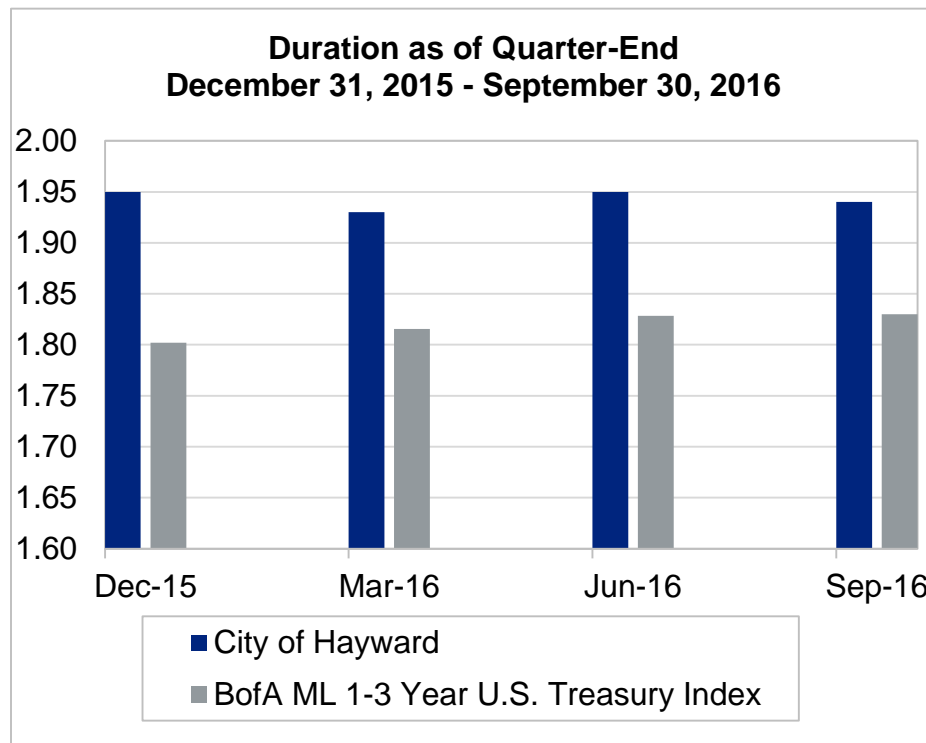
PFMAM Service Provided	Result
Active Management	<ul style="list-style-type: none">• PFMAM’s active management of the City’s portfolio has enhanced yield while actively controlling and mitigating risk.<ul style="list-style-type: none">– For the trailing 12 months, we worked with the City to diversify their portfolio by investing less in Treasuries and more into agencies, ABS and supernationals offering more attractive yields and have consistently met or beat the benchmark.– For the trailing 12 months, market value earnings were roughly \$1.3 million.
Credit Review and Analysis	<ul style="list-style-type: none">• Each non-government issuer in the City’s portfolio has been fully vetted. We only purchase securities from issuers on our “Approved Credit List”, which is maintained and monitored by the members of PFMAM’s Credit Committee.
Broker/Dealer Analysis	<ul style="list-style-type: none">• In the past 12 months, we executed 100 competitive transactions for the City of Hayward with 21 different brokers from our “Approved Broker/Dealer” list which contains 50 members.
Portfolio Management Resources	<ul style="list-style-type: none">• We maintain frequent contact with the City to provide updates on investment strategy.• We have provided the City with access to the four senior professionals from PFMAM assigned to the City’s account.

* As of 9/20/16.

Controlling Interest Rate Risk

Attachment I

- PFMAM works to limit interest rate risk by:
 - **Active duration management** – we constantly monitor and adjust the portfolio’s duration relative to its benchmark relative to our view of interest rates.
 - **Maturity selection** – we mitigate the need to sell securities prior to maturity by only selecting securities that may be reasonably held to maturity.



Market-Implied Probability of Hike				
Meeting	12/31/15	3/31/16	6/30/16	9/30/16
10/28/15	-	-	-	-
12/16/15	-	-	-	-
1/27/16	0%	-	-	-
3/16/16	51%	-	-	-
4/27/16	56%	0%	-	-
6/15/16	75%	20%	-	-
7/27/16	79%	33%	0%	-
9/21/16	87%	41%	0%	-
11/2/16	89%	45%	0%	17%
12/14/16	93%	54%	9%	59%

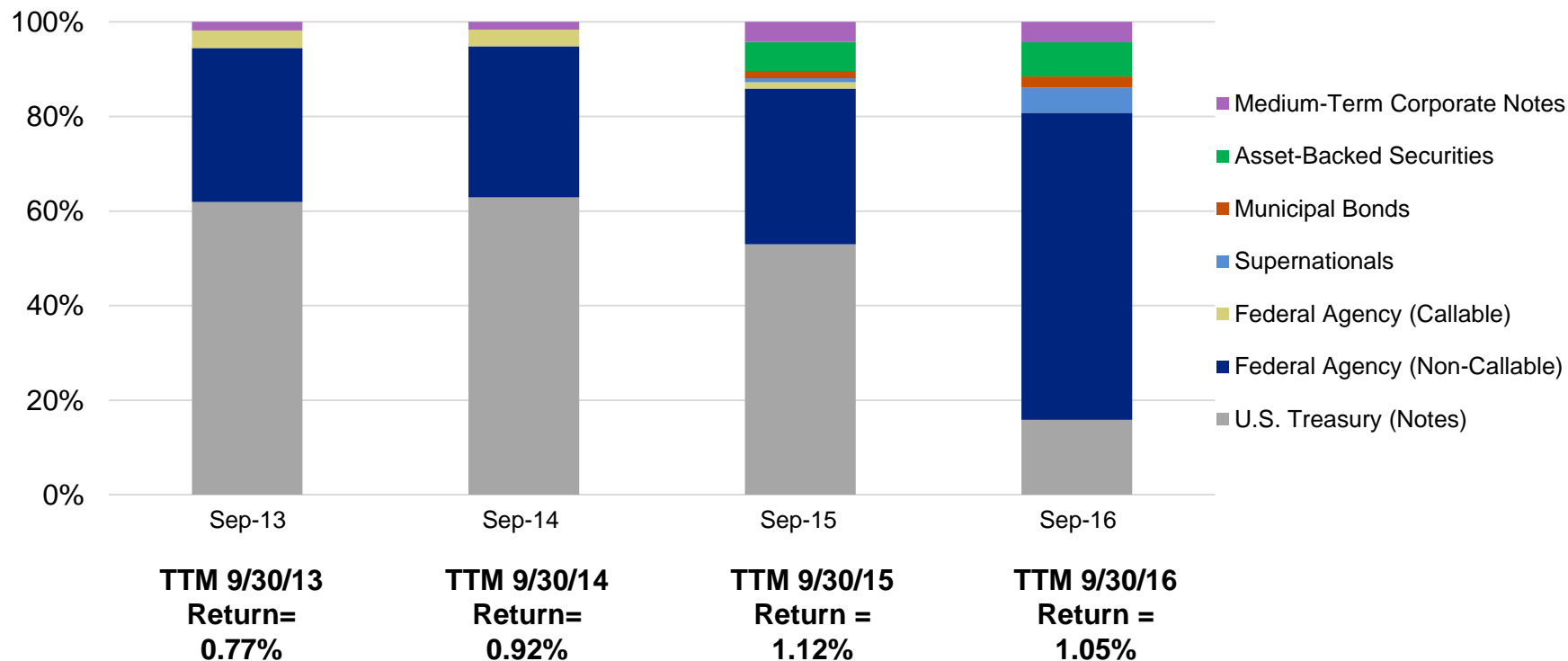
Source: Bloomberg.

Managing Sector Allocation

Attachment I

- We have improved diversification over time by adding additional investment sectors.
- We have actively managed sector allocation to add value.

Sector Allocation Over Time

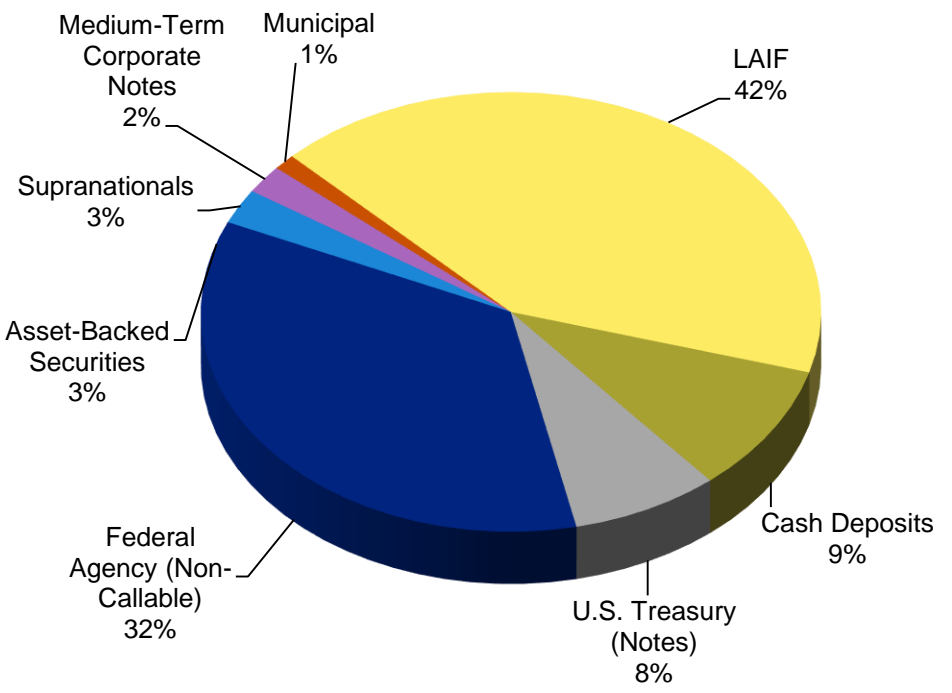


* Returns are shown net of portfolio management fees.

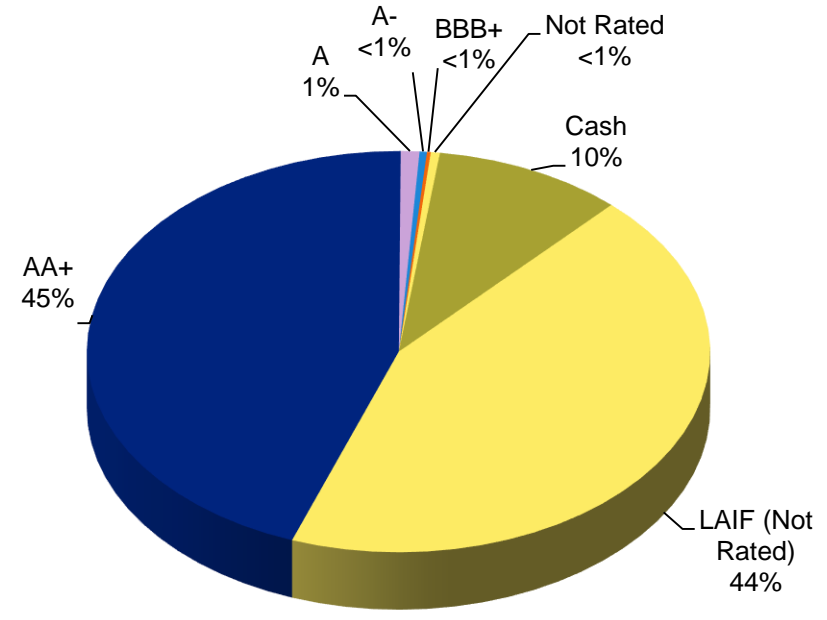
City's Portfolio Diversified and Highly Rated

Attachment I

Sector Allocation
September 30, 2016



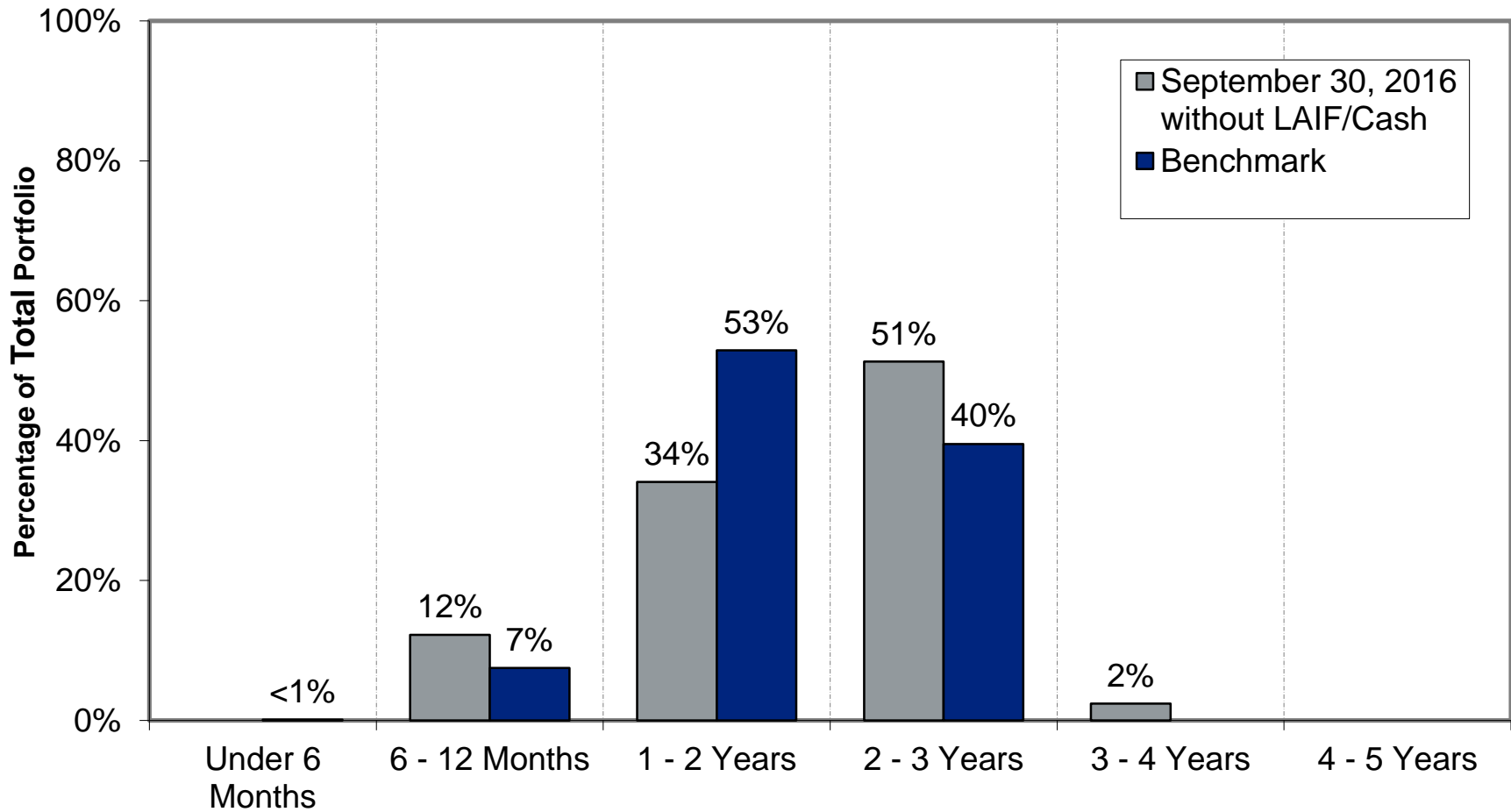
Credit Quality*
September 30, 2016



* Ratings by Standard and Poor's.
Numbers may not add to 100% due to rounding.

Maturity Distribution vs. Benchmark Distribution

Attachment I

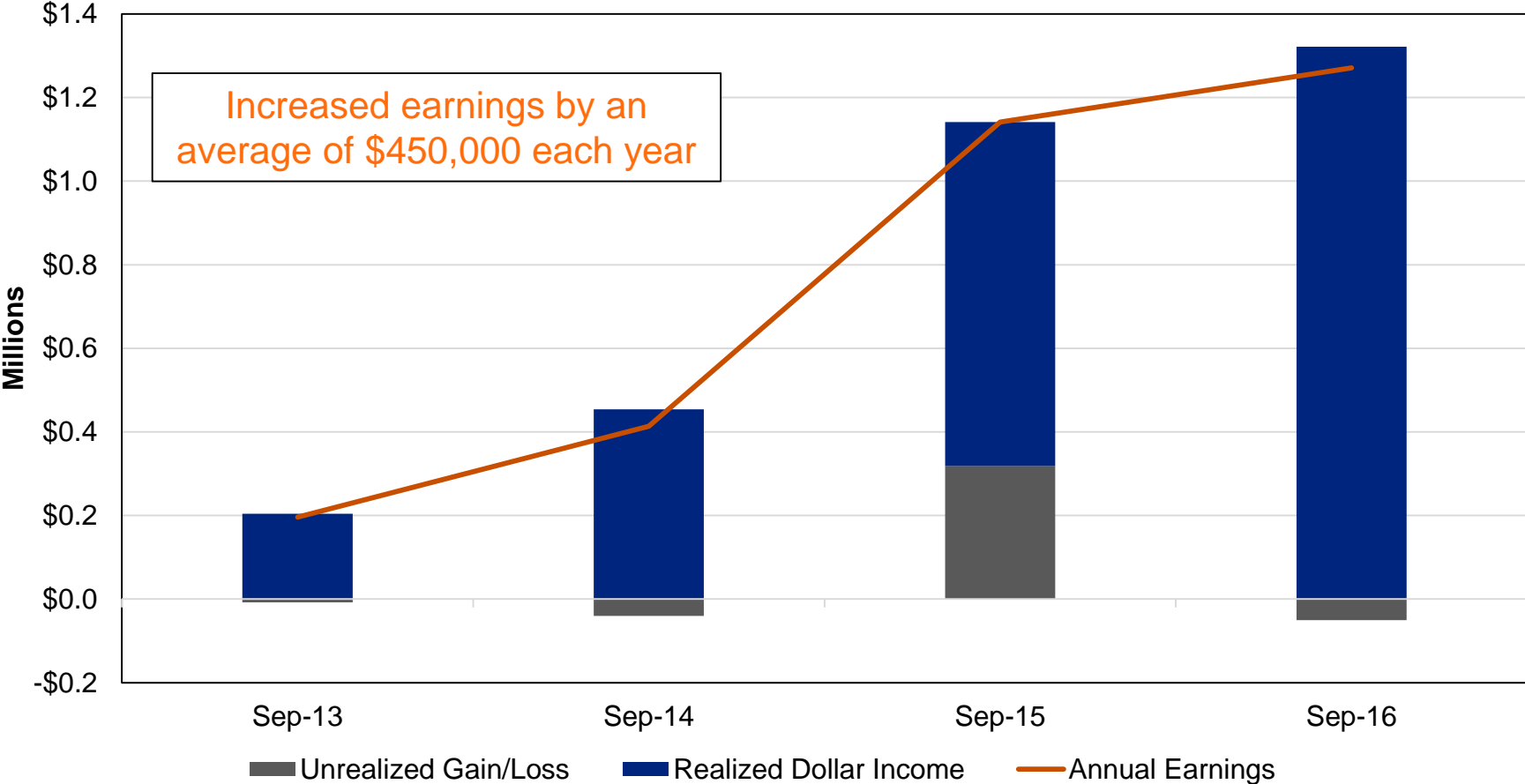


- Excludes cash and LAIF balances.
- Benchmark represents Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- Numbers may not add to 100% due to rounding.

Portfolio Earnings Continue to Increase

Attachment I

Trailing 12 Months Earnings



Portfolio's Historical Total Return Performance

Attachment I

- The portfolio generated returns in excess of its benchmark despite having a similar duration.

Third Quarter Return ^{1,2,3,4,5} Quarter Ended September 30, 2016					
	Effective Duration	Past Year Return	Past 2 Years Return	Past 3 Years Return	Since Inception
Hayward	1.83	1.05%	1.12%	0.92%	0.77%
1-3 Year U.S. Treasury Index	1.83	0.88%	1.02%	0.85%	0.73%
Difference		+0.17%	+0.10%	+0.07%	+0.04%

1. Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).

2. Merrill Lynch Indices provided by Bloomberg Financial Markets.

3. Quarterly returns are presented on an unannualized basis.

4. Excludes LAIF and cash balance in performance, duration, and yield computations.

5. Inception date is September 30, 2012.

Strategy Update

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- We will continue to monitor credit sectors, including corporates notes, commercial paper, and negotiable CDs.
- We will continue to evaluate the MBS and ABS sectors. To provide further portfolio diversification and add incremental return, we will purchase those issues we believe are:
 - Well structured,
 - offer adequate yield spreads, and
 - have limited duration variability.
- Agency yield spreads moved modestly tighter during the third quarter but still offer value in certain maturities. New issues, which typically offer a yield concession, offer the best opportunities.
- Keep the duration of the portfolio near neutral to the benchmark as we monitor incoming economic data and the prospect for a Fed rate hike at year-end, providing more evidence on the direction of interest rates over the coming quarter.

Disclaimer

Attachment I

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