

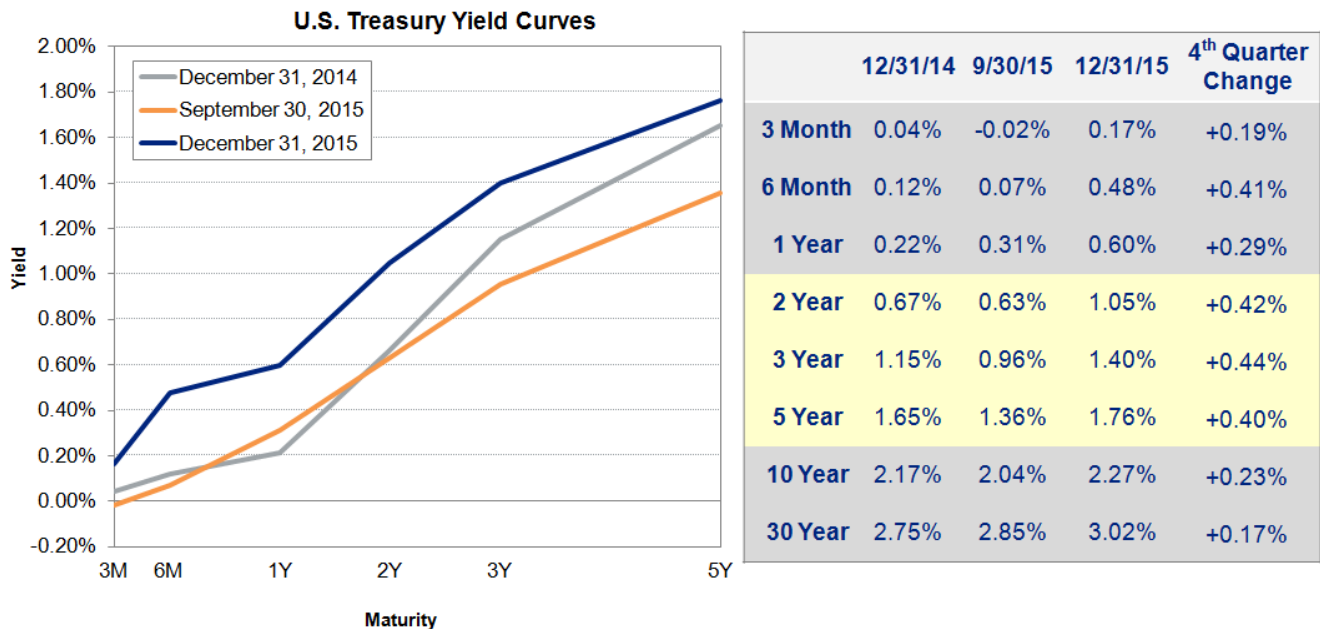
## Exhibit A Investment Portfolio Review Quarter Ending December 31, 2015

### Overview October 1, 2015 – December 31, 2015

During the October - December quarter, yields on 2-year Treasuries began to increase based on the markets' expectation of a FOMC increase in the Fed Funds Rate. After being stuck at 0.00 – 0.25% for seven years, on December 16<sup>th</sup>, the Fed decided to raise the target range for the federal funds rate to 0.25 – 0.50%. The Committee also expressed that “economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate”.

### Yields Climb Higher!

- Yields across the curve increased leading up the Fed rate hike
- Yields in the 2-5 year range had the largest changes.



Source: Bloomberg

The County Treasury outperformed most portfolio benchmarks this quarter. Our investment strategy positions short term debt to provide liquidity and continues to take advantage of available higher yields on commercial paper and negotiable CDs as well as buying longer term treasury notes with attractive rates. The following indicators reflect key aspects of the County's investment portfolio in light of the above noted conditions:

1. Market Access – Access to U.S. Treasuries and Agency debt continues to be available. Yields on 2-year Treasuries increased dramatically during the fourth quarter as the market priced in an increase in the Fed Funds Target Rate. During the quarter, the majority of County investment purchases continue to be in U.S. Treasuries, with a continued small position in shorter term, highly rated Corporate Bonds, Commercial Paper and Negotiable

CDs. The Treasurer continues to keep a high level of liquid assets, reflecting the need to maintain levels of available cash to ensure the ability to meet all cash flow needs.

2. Diversification - The Monterey County Treasurer’s portfolio consists of fixed income investments, all of which are authorized by the State of California Government Code 53601.

The portfolio asset spread is detailed in the table below:

| Portfolio Asset Composition |               |               |                  |                  |
|-----------------------------|---------------|---------------|------------------|------------------|
| Corporate Assets            | Liquid Assets | US Treasuries | Federal Agencies | Commercial Paper |
| 10%                         | 26%           | 25%           | 34%              | 5%               |

3. Credit Risk – Approximately 85% of the investment portfolio is comprised of U.S. Treasuries, Federal Agency securities and other liquid funds. All assets have an investment grade rating. U.S. Treasuries are not specifically rated, but are considered the safest of all investments. The corporate debt (10%) is rated in the higher levels of investment grade. All federal agency securities have AA ratings, or are guaranteed by the U.S. Treasury. The credit quality of the County’s portfolio continues to be high.

The portfolio credit composition is detailed in the table below:

| Portfolio Credit Composition |      |     |    |     |    |      |                  |                    |                      |
|------------------------------|------|-----|----|-----|----|------|------------------|--------------------|----------------------|
| AAA                          | AAAm | AA+ | AA | AA- | A  | A-1+ | A-1 (Short-term) | Aaf/S1+ (CalTrust) | Not Rated (LAIF/MMF) |
| <1%                          | 9%   | 61% | 2% | 2%  | 2% | 2%   | 6%               | 11%                | 5%                   |

4. Liquidity Risk – Liquidity risk, as measured by the ability of the County’s Treasury to meet withdrawal demands on invested assets, was adequately managed during the October to December quarter. The portfolio’s average weighted maturity was 518 days, and the County maintained \$333.3 million (26%) in overnight investments to provide immediate liquidity.

## **PORTFOLIO CHARACTERISTICS**

|                    | <b><u>September 30, 2015</u></b> | <b><u>December 31, 2015</u></b> |
|--------------------|----------------------------------|---------------------------------|
| Total Assets       | \$983,156,386                    | \$1,308,756,427                 |
| Market Value       | \$983,495,594                    | \$1,307,853,256                 |
| Days to Maturity   | 407                              | 518                             |
| Yield              | 0.69%                            | 0.71%                           |
| Estimated Earnings | \$1,755,644                      | \$1,961,614                     |

## **FUTURE STRATEGY**

Ongoing improvement in employment data and housing starts are positive economic news. The Fed tightening at a slow pace along with moderate economic growth should provide a supportive environment for investment-grade credit. The acquisition of new corporate bonds, bank certificates of deposit (CDs) and commercial paper will continue to contribute positively to portfolio performance. The Treasurer has begun to ladder additional investments in the 2-3 year maturity range to take advantage of the higher yields offered in that part of the yield curve.

As long as the Federal Treasury continues to propose gradual increases in the fed funds rate the returns on the investments in the County's pool will remain at low levels. The portfolio is adequately positioned and has begun to take advantage of the changing market conditions.