

# Investment Portfolio Update 9-30-2016

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# Treasury Mission Statement

- **Ensure prudent management of public funds**
- **Invest surplus cash – safety, liquidity, yield**
- **Measure portfolio performance against Merrill Lynch 1-3 year Index**
- **Management and investment of current debt**
- **Provide efficient banking services and merchant services for credit card processing**
- **Meet all debt and investment regulatory, statutory, policy, audit and reporting requirements**
- **Systems and Data Management**

# Investment Oversight and Management

- **Comply with Florida Statutes and Board adopted Investment Policy**
- **Main principles of investing are Safety and Liquidity of all Investments - Yield is always secondary**
- **Policy has been reviewed by advisor PFM, auditors and will be reviewed by the A&F committee**

# PFM AND POLICY REVIEW

- **The District has hired Public Financial Management as an additional layer of oversight for the portfolio in addition to resurrecting the A&F Committee**
- **PFM provides financial advisory services to government and not for profit clients**
- **Key tasks of PFM will be to help create a long/short term cash flow forecast, review current policy (2008) and update in accordance with market, revisit MBS allocation percentage, consider utilizing a more comparable index (current is Merrill Lynch 1-3 year Treasury Index) and be available to attend A&F Committee meetings as needed**
- **Future portfolio strategy will be to decrease cash balances further and increase earnings while maintaining policy guidelines.**

# Investment Highlights – Risk Components

- Invest in AA and AAA senior tranches, receive P&I before any other investor in pool, i.e. low prepayment risk (both contraction and extension risk)
- Securities are either fully backed (GNMA) or sponsored (FHLB, FNMA and FHLMC) by the US government, low principal risk
- Highly liquid, overall portfolio duration is less than 3 years, i.e. low interest rate and low duration risk
- Invest in mortgage pools with prime borrowers (conforming loans) with full documentation and strong credit scores. No subprime, low credit risk
- Mortgage investments provide cash flow and additional yield (\$41.7M in FY16)
- Low liquidity risk-we can sell investments any time and receive principal back

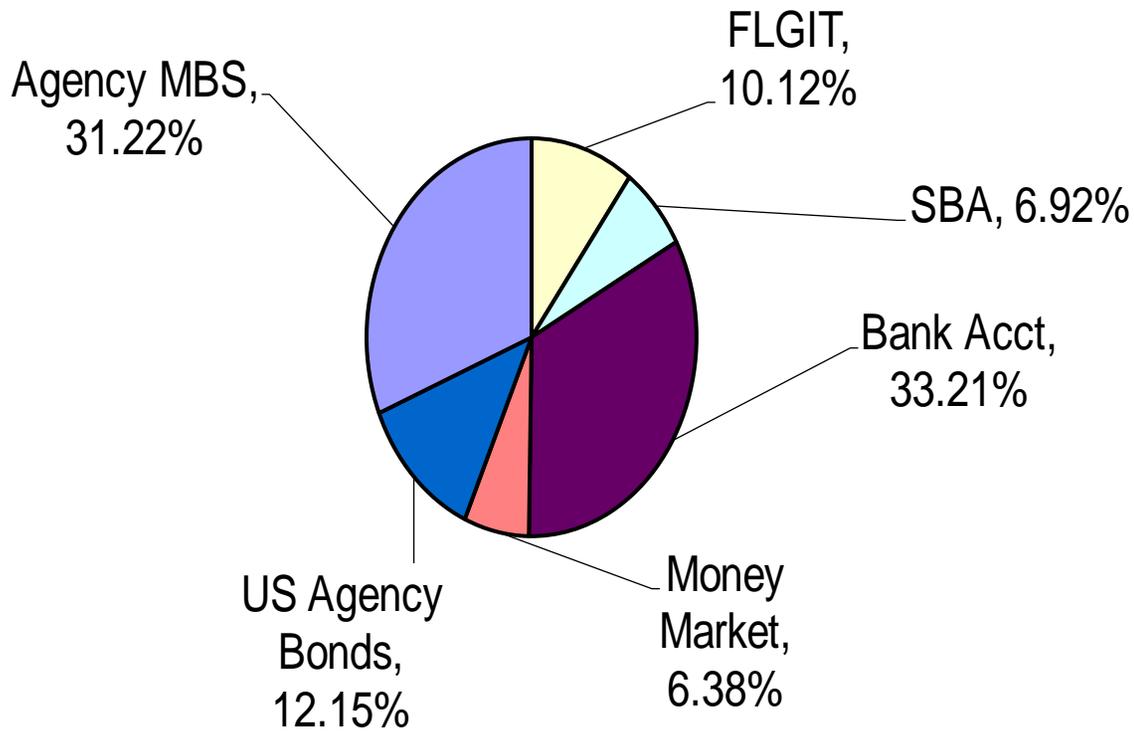
# Key Interest Rates

	<b>6-30-2016</b>	<b>9-30-2016</b>
<b>Fed Funds</b>	<b>0.25-0.50</b>	<b>0.25-0.50%</b>
<b>3 Month T Bill</b>	<b>0.26%</b>	<b>0.29%</b>
<b>3 Month Libor</b>	<b>0.6516%</b>	<b>0.8497%</b>
<b>2 Yr Treasury</b>	<b>0.58%</b>	<b>0.77%</b>
<b>State Pool</b>	<b>0.67%</b>	<b>0.78%</b>

# Portfolio Breakdown 9-30-2016

	<u>PAR VALUE (M)</u>	<u>YIELD</u>
<b>OPERATING ACCT</b>	<b>\$164.0M</b>	<b>0.25%</b>
<b>MONEY MARKET</b>	<b>\$31.5M</b>	<b>0.40%</b>
<b>FL STATE BOARD (SBA)</b>	<b>\$34.2M</b>	<b>0.78%</b>
<b>BOND FUND (FLGIT)</b>	<b>\$50.0M</b>	<b>0.91%</b>
<b>U.S. AGENCIES</b>	<b>\$60.0M</b>	<b>1.40%</b>
<b>MORTGAGES</b>	<b>\$154.4M</b>	<b>2.34%</b>

# Portfolio Sector Allocation



# Bond Calls and Purchases

- We had six bonds called in FY16
- Eight bonds were purchased in this fiscal year thus increasing yield by 15 basis points (.15%), which equates to approx. \$750K additional income per year on a \$500M (average balance) portfolio.
- With the help of PFM in formulating a short and long term cash forecast, we will continue with this strategy of decreasing cash and optimizing yield while maintaining safety and liquidity and meeting daily funding needs
- Current MBS allocation maximum is 30%
- Mortgages add increased yield, increasing MBS percentage allocation has been recommended by brokers
- Discussion Point: Is increasing our percentage allocation in Mortgage Backed Securities something we want to consider? We would discuss with PFM, A&F Committee as well as go to the Board for approval

# Performance Review 9-30-2016

- **Investment Earnings – \$4.6M YTD**
- **Book Yield (Cash and Investments) – 1.15%**
- **Cash Balance – \$280.0M**
- **Investment Balance – \$214.4M**
- **Duration of portfolio is 1.52 – measures risk and average maturity**

# Benchmark Comparisons 9-30-2016

## SHORT TERM CASH (57%)

- **SFWMD Book Yield** **0.45%**
- **S&P LGIP Index** **0.45%**

## LONG TERM INVESTMENTS (43%)

- **SFWMD Book Yield** **2.08%** **Duration 3.02**
- **Merrill Lynch 1-3 yr Index** **0.78%** **Duration 1.90**

# Benchmark

- **Current benchmark is the Merrill Lynch 1-3 Year Treasury Index**
- **This was recommended by our Financial Advisor, PFM, in 2008 as a way to measure overall performance**
- **ML Index invests in US Treasuries and average duration is very short**
- **The District's portfolio is invested more diversely in US Agencies, MBS's and Corporate Bonds and max duration is 3 years**
- **This leads to an uneven comparison in performance**
- **Discussion Point: The District may want to consider other alternative benchmarks as a measure of performance**

# SBA UPDATE

- In December 2007, during the subprime crisis, \$13.8M was deemed illiquid and transferred from Fund A to Fund B
- We chose not to pull funds in support of the State.
- We received back 100% of those funds as of 9-30-2014
- Current Yield of Fund A is .78%
- We have not invested any funds into the SBA since the funds lockup.
- The SBA yield is very competitive with, if not exceeds, other MM yields
- Discussion Point: Is investing funds in SBA again something to consider in the future?

# FLGIT

- Invested \$50M of portfolio in 6-30-2010 into the Florida Local Government Investment Trust
- FLGIT is an authorized investment under Florida Statute 218.415
- Launched in 1992 and sponsored by the Florida Court Clerks and Comptrollers and the Florida Association of Counties.
- AAA-rated by S&P and structured to maintain liquidity, safety of principal, and maximize available yield through a balance of quality and diversification.
- Invests primarily in U.S. Treasuries, Mortgages, Commercial Paper, Government Related Securities, Asset-Backed Securities rated AAA or A-1, and Corporate Bonds rated A or better by Standard and Poor's.
- 6.95% return over the life of this investment (\$3.5M gain LTD)
- Doesn't earn interest but we book gains quarterly
- This is considered a short term bond fund and effective duration is 1.44 years as of 9-30
- We include this in cash and thus our cash percentage is high (57%) and if we break this out, cash percentage drops to 46%
- Current NAV is \$24.554019 vs \$22.95830 on purchase date
- We own \$2,177,861 shares
- 12 month total return is 1.027%

# COPS

- **The District issued \$546M in debt in 2006 for the EAA reservoir project**
- **In 2009, this was amended to Compartments B&C and then to the A-1 Flow Equalization Basin**
- **These funds have all been spent and \$46M was earned on these proceeds to date**
- **In February 2016, The District moved forward with a refunding project after watching the long term debt markets for several years**
- **We waited for long term rates to be low and short term (escrow) rates to be high to decrease negative arbitrage.**
- **The District assembled an investment banker syndicate and refunded \$442.025M of old debt at a 5% average coupon**
- **Received \$70.8M premium and now pay debt service on \$385.425M at 3.09% cost of interest.**
- **These bonds mature on 9-30-2037 as there was no extension of the original debt**
- **This deal helped to save the District \$100M in PV savings over the next 20 years in debt service payments.**