

REPORT

To the Honorable Mayor and City Council
From the City Manager

June 12, 2017

SUBJECT

Quarterly Investment Report for the Period Ending March 31, 2017

RECOMMENDATION

By motion, approve, the City's Quarterly Investment Report for the period ending March 31, 2017

BACKGROUND

In June 2016, the City Council adopted a new investment policy that requires staff to provide a quarterly Investment report to Council at a public meeting. Additionally, the City hired an investment manager, PFM Asset Management LLC (PFM), to manage the City's surplus funds pursuant to the newly adopted policy. The City's primary investment objectives continue to be safety, liquidity, and return on investment (yield), in that order.

The attached report represents all areas in which City invests funds, excluding trust funds and bond proceeds held with a trustee.

ANALYSIS

The attached investment report indicates that, as of March 31, 2017, surplus funds (excluding cash with fiscal agents) from all sources were invested and produced an earnings rate of 1.15%. The market value of the portfolio as of March 31 was \$230,815,926. This includes funds held in the San Mateo County Treasurer's investment pool and the State Treasurer's investment pool. All of these investments comply with the City's investment policy as of March 31. The City has sufficient liquid resources available to meet expenditure requirements for the next six months.

The City's portfolio portion that is managed by PFM has a market value of \$139,529,151, with yield at market of 1.49%, and an average maturity of 2.36 years. The market benchmark selected, with consultation from the City Council Finance and Audit Subcommittee, is the Bank of America Merrill Lynch 1-5 year U.S. Treasury Index. Beginning with this quarter, the portfolio's total return performance will be compared to the benchmark's total return performance.

Below is a table summarizing the City's portfolio performance compared to the benchmarks as of March 31.

Portfolio/Benchmark	Total Return	Effective Duration	Yield at Market	Average Maturity
Redwood City	0.43%	2.21	1.49%	2.36 years
BofA ML 1-5 year U.S. Treasury Index	0.37%	2.63	1.48%	2.80 years

Key drivers of market conditions in the first quarter of 2017 included the Federal fund rate change, early rollout of various policies from the new presidential administration, continued improvement of consumer confidence, and further stock market appreciation. PFM’s primary strategy this quarter was to maintain “neutral” durations through January and February, as market conditions were consistent with an economic outlook for moderate growth. They shifted to a more defensive posture in late February as the March rate hike became imminent and rates rose quickly. Yield spreads between U.S. Treasuries and Agencies remained historically tight during the quarter; PFM worked to swap out of the expensive Agency holdings into U.S. Treasuries at similar yields, and purchase new issues mostly in the 2-3 year maturity range. The corporate sector outperformed comparable-maturity Treasuries for the sixth straight quarter.

Looking ahead, PFM anticipates the Federal fund rate will be increased at least two more times in 2017. PFM will continue to favor Treasuries over Agencies. Rising interest rates ultimately result in higher earnings potential, but also negatively affect the market value of current holdings. This may result in short-term losses. Corporate securities remain near multi-year lows; however, improving corporate profits as well as pro-business measures from the presidential administration should improve yields. PFM will continue to monitor carefully opportunities in various sectors, including corporate securities, negotiable bank CDs, and asset-backed securities.

PFM has provided an in-depth market summary and discussion on their investment strategy and outlook in the attached investment report.

ALTERNATIVES

The Council can ask staff to provide the investment report in a different format or include different information; staff could return at a future Council meeting with an updated report.

FISCAL IMPACT

The City’s portfolio received \$577,772 in interest earnings over the last quarter. All interest earnings are allocated monthly through a preset methodology that spreads earnings to the appropriate funds. Fees for PFM’s services during this period are \$22,291.

ENVIRONMENTAL REVIEW

This activity is not a project under CEQA as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment.



SYLVIA BRAVO PETERS
DEPUTY TREASURER



KIMBRA MCCARTHY
TREASURER / ASSISTANT CITY MANAGER OF ADMINISTRATIVE SERVICES



MELISSA STEVENSON DIAZ
CITY MANAGER

ATTACHMENT

1. PFM Asset Management Investment Performance Review



REDWOOD CITY

**Investment Performance Review
For the Quarter Ended March 31, 2017**

Investment Performance Review

- The portfolio complies with the Client's Investment Policy and California Government Code.

<u>Security Type</u>	<u>March 31, 2017</u>	<u>% of Portfolio</u>	<u>Permitted by Policy</u>
U.S. Treasury	\$49,204,362	21.3%	100%
Federal Agency/GSE	\$74,503,093	32.3%	70%
Commercial Paper	\$4,720,473	2.0%	10%
Corporate Notes	\$10,462,336	4.5%	20%
San Mateo County Pool	\$43,792,004	19.0%	\$50 million
LAIF	\$47,932,715	20.8%	\$65 million
Money Market Fund	\$200,944	0.1%	20%
Totals	\$230,815,926	100%	

<u>Portfolio Earnings</u>	<u>Earnings Rate</u>	<u>Earnings</u>
Individual Securities	1.28%	\$365,293
San Mateo County Pool	0.99%	\$124,887
State Treasurer's Investment Pool - LAIF	0.78%	\$87,592
Average/Totals	1.15%	\$577,772

Notes:

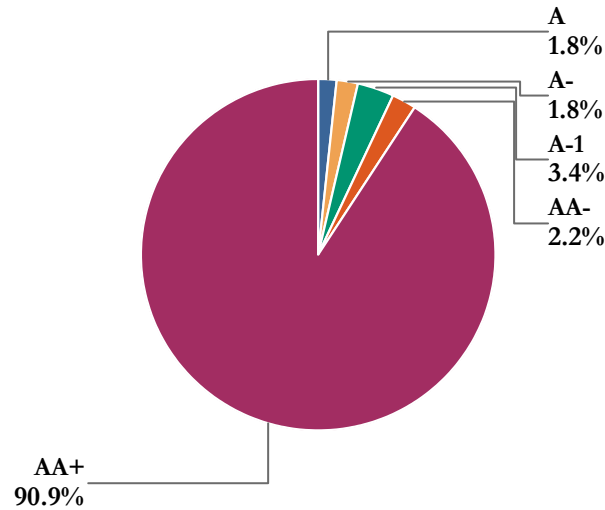
Individual security values are market values excluding accrued interest. County Pool and LAIF values are at cost. Individual Securities' yield is yield at cost on 03/31/17 and earnings are accrual basis earnings for the quarter ended 03/31/17. San Mateo County Pool and LAIF yields and earnings provided by the City.

Portfolio Statistics

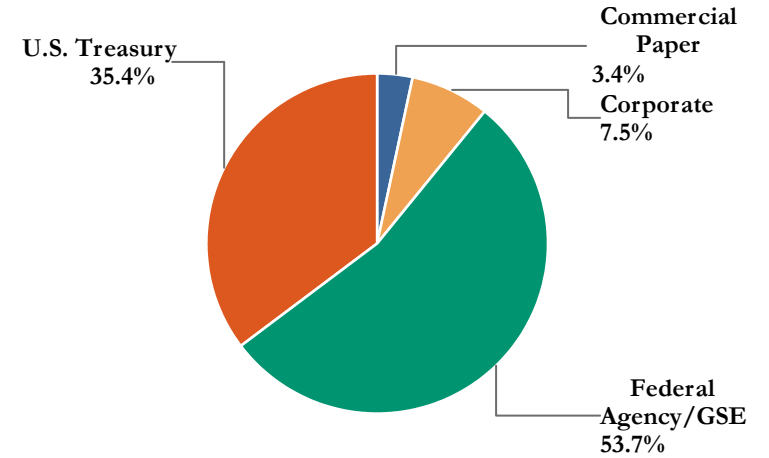
As of March 31, 2017

Par Value:	138,965,000
Total Market Value:	139,529,151
Security Market Value:	138,890,264
Accrued Interest:	437,943
Cash:	200,944
PFM	-
Amortized Cost:	139,554,169
Yield at Market:	1.49%
Yield at Cost:	1.28%
Effective Duration:	2.21 Years
Duration to Worst:	2.28 Years
Average Maturity:	2.36 Years
Average Credit: *	AA

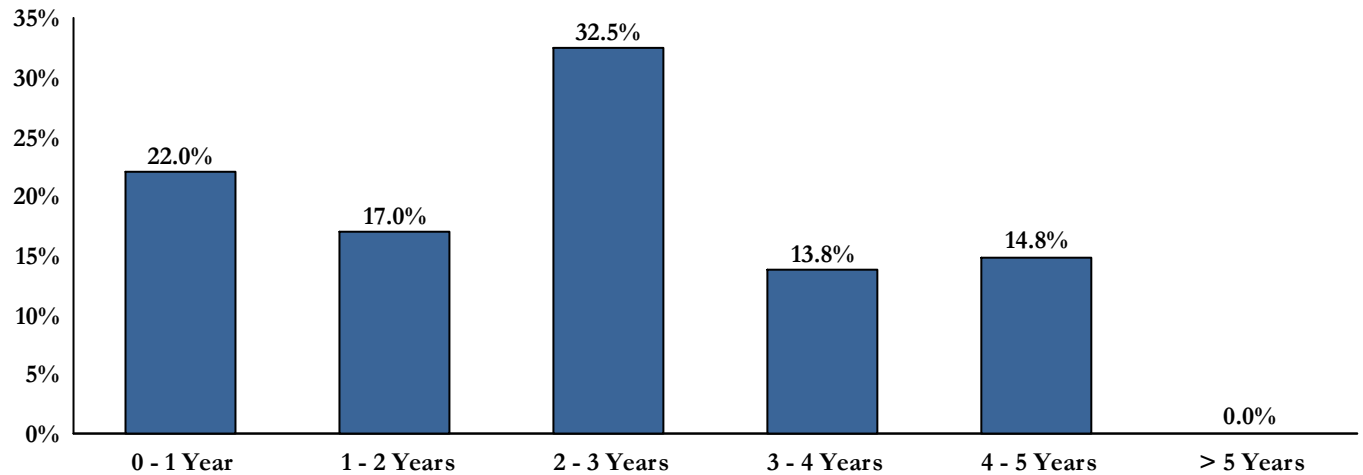
Credit Quality (S&P Ratings)



Sector Allocation



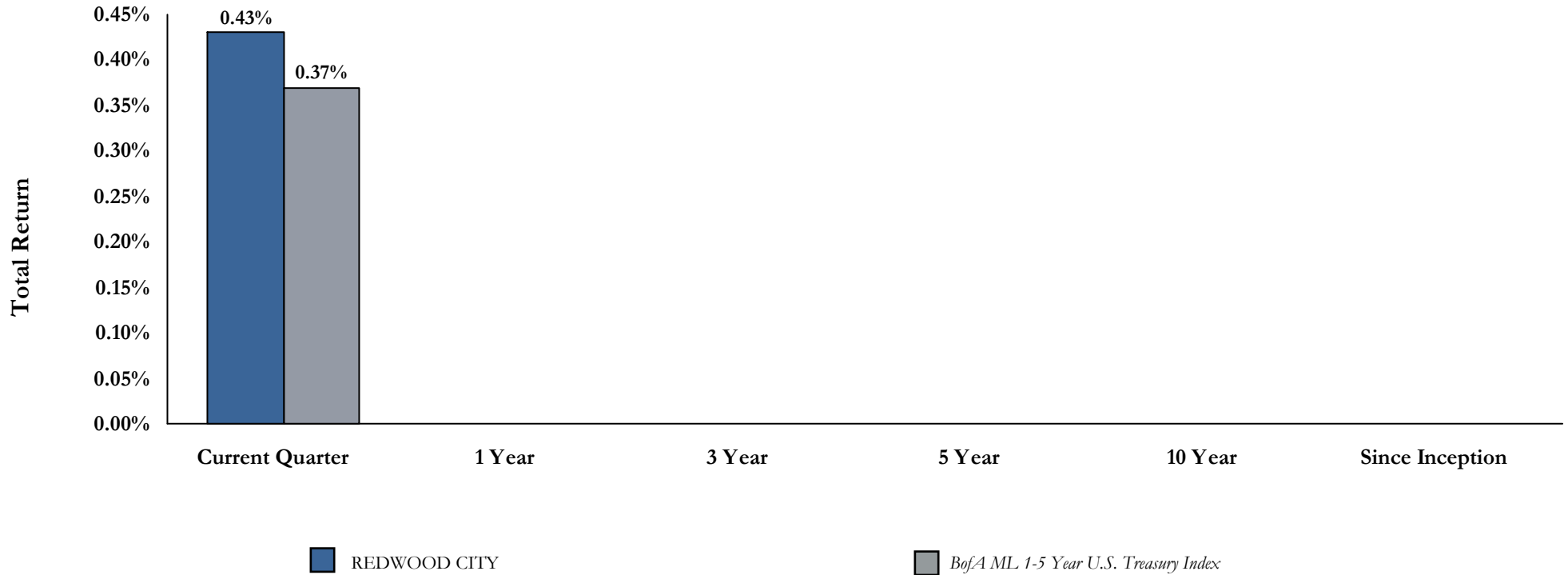
Maturity Distribution



* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Portfolio Performance (Total Return)

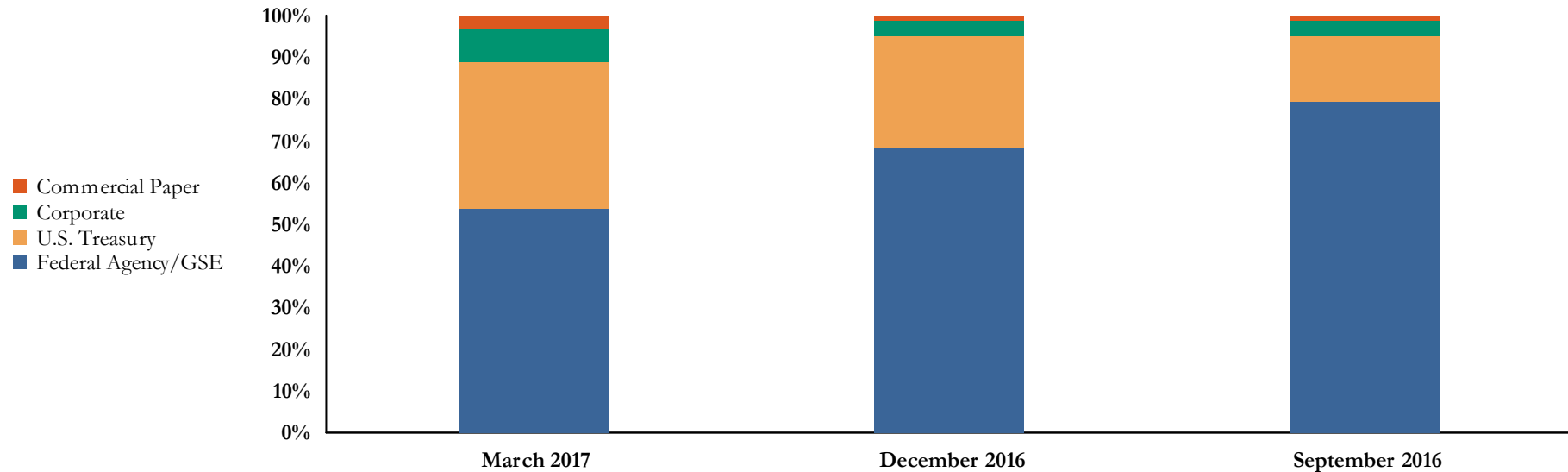
Portfolio/Benchmark	Effective Duration	Current Quarter	1 Year	Annualized Return			Since Inception (12/31/16) *
				3 Year	5 Year	10 Year	
REDWOOD CITY	2.21	0.43%	-	-	-	-	-
<i>BofA ML 1-5 Year U.S. Treasury Index</i>	2.63	0.37%	-	-	-	-	-
Difference		0.06%	-	-	-	-	-



Portfolio performance is gross of fees unless otherwise indicated. *Since Inception performance is not shown for periods less than one year.

Sector Allocation

Sector	March 31, 2017		December 31, 2016		September 30, 2016		June 30, 2016	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
Federal Agency/GSE	74.5	53.7%	87.2	68.1%	102.6	79.5%	0.0	0.0%
U.S. Treasury	49.2	35.4%	34.4	26.8%	19.9	15.4%	0.0	0.0%
Corporate	10.5	7.5%	5.0	3.9%	5.1	3.9%	0.0	0.0%
Commercial Paper	4.7	3.4%	1.5	1.2%	1.5	1.2%	0.0	0.0%
Total	\$138.9	100.0%	\$128.1	100.0%	\$129.0	100.0%	\$0.0	0.0%

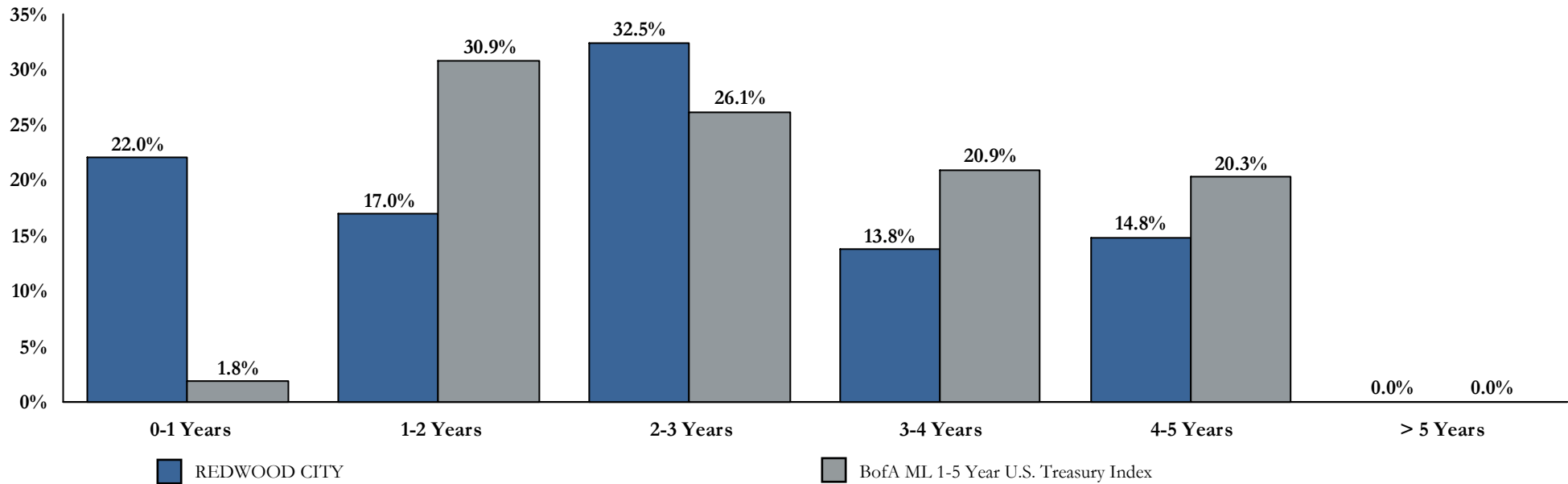


Detail may not add to total due to rounding.

Maturity Distribution

As of March 31, 2017

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
REDWOOD CITY	1.49%	2.36 yrs	22.0%	17.0%	32.5%	13.8%	14.8%	0.0%
BofA ML 1-5 Year U.S. Treasury Index	1.48%	2.80 yrs	1.8%	30.9%	26.1%	20.9%	20.3%	0.0%



Issuer Distribution

As of March 31, 2017

Issuer	Market Value (\$)	% of Portfolio
UNITED STATES TREASURY	49,204,362	35.4%
FREDDIE MAC	39,833,138	28.7%
FANNIE MAE	20,717,857	14.9%
FEDERAL HOME LOAN BANKS	10,967,986	7.9%
FEDERAL FARM CREDIT BANKS	2,984,112	2.2%
APPLE INC	2,507,278	1.8%
JP MORGAN CHASE & CO	2,481,014	1.8%
WELLS FARGO & COMPANY	2,475,420	1.8%
INTERNATIONAL BUSINESS MACHINES	2,408,004	1.7%
CANADIAN IMPERIAL BANK OF COMMERCE	1,489,800	1.1%
RABOBANK NEDERLAND	1,489,658	1.1%
MITSUBISHI UFJ FINANCIAL GROUP INC	1,241,958	0.9%
CHEVRON CORP	590,620	0.4%
BNP PARIBAS	499,058	0.4%
Grand Total:	138,890,264	100.0%

Top 5 = 89.1%

Top 10 = 97.3%

Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
BUY									
1/3/17	1/5/17	3,000,000	912828F96	US TREASURY NOTES	2.00%	10/31/21	3,017,618.92	1.95%	
1/18/17	1/19/17	1,500,000	13607EXD6	CANADIAN IMPERIAL HLDING COMM PAPER	0.00%	10/13/17	1,484,591.88	1.40%	
2/1/17	2/3/17	2,400,000	459200JN2	IBM CORP NOTES	1.90%	1/27/20	2,399,776.00	1.91%	
2/9/17	2/14/17	2,500,000	037833CK4	APPLE INC BONDS	1.90%	2/7/20	2,501,234.72	1.89%	
2/10/17	2/13/17	2,825,000	3135G0S38	FANNIE MAE AGENCY NOTES	2.00%	1/5/22	2,833,132.86	1.98%	
2/16/17	2/17/17	1,500,000	21687AXP3	COOPERATIEVE RABOBANK U.A. COMM PAPER	0.00%	10/23/17	1,486,773.33	1.29%	
2/24/17	2/28/17	1,495,000	3135G0T29	FNMA NOTES	1.50%	2/28/20	1,494,043.20	1.52%	
2/28/17	3/3/17	590,000	166764BS8	CHEVRON CORP CORP NOTES	1.68%	2/28/19	590,000.00	1.69%	
3/1/17	3/2/17	2,000,000	912828F62	US TREASURY NOTES	1.50%	10/31/19	2,010,891.75	1.48%	
3/1/17	3/2/17	2,000,000	912828T67	US TREASURY NOTES	1.25%	10/31/21	1,944,441.04	1.97%	
3/1/17	3/2/17	2,000,000	912828H86	US TREASURY NOTES	1.50%	1/31/22	1,955,923.69	2.00%	
3/1/17	3/2/17	2,000,000	3137EADG1	FREDDIE MAC NOTES	1.75%	5/30/19	2,023,724.44	1.41%	
3/1/17	3/2/17	3,000,000	3135G0T29	FNMA NOTES	1.50%	2/28/20	2,985,800.00	1.67%	
3/9/17	3/10/17	3,000,000	3130AAXX1	FEDERAL HOME LOAN BANK AGENCY	1.37%	3/18/19	2,993,040.00	1.49%	
3/13/17	3/13/17	500,000	06538BWD1	BANK OF TOKYO MITSUBISHI UFJ LTD COMM PA	0.00%	9/13/17	496,396.67	1.42%	
3/15/17	3/17/17	3,000,000	912828J43	US TREASURY N/B NOTES	1.75%	2/28/22	2,947,112.77	2.14%	
3/15/17	3/17/17	3,000,000	912828Q37	US TREASURY NOTES	1.25%	3/31/21	2,931,760.82	1.99%	
3/17/17	3/20/17	750,000	06538BWL3	BANK OF TOKYO MITSUBISHI UFJ LTD COMM PA	0.00%	9/20/17	744,595.00	1.42%	
Total BUY		37,060,000					36,840,857.09		

INTEREST

1/3/17	1/3/17	0	MONEY0002	MONEY MARKET FUND			199.79		
1/12/17	1/12/17	3,000,000	3137EADN6	FHLMC NOTES	0.75%	1/12/18	11,250.00		
1/15/17	1/15/17	2,400,000	46625HGY0	JPMORGAN CHASE & CO NOTES	6.00%	1/15/18	72,000.00		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
1/16/17	1/16/17	2,000,000	3130AAE46	FHLB NOTES	1.25%	1/16/19	2,638.89		
1/26/17	1/26/17	3,000,000	3134G76P1	FHLMC NOTES (CALLABLE)	0.85%	1/26/18	12,750.00		
1/31/17	1/31/17	2,920,000	912828H52	US TREASURY NOTES	1.25%	1/31/20	18,250.00		
2/1/17	2/1/17	0	MONEY0002	MONEY MARKET FUND			161.02		
2/1/17	2/1/17	2,400,000	92976WBH8	WACHOVIA CORP NOTES	5.75%	2/1/18	69,000.00		
2/13/17	2/13/17	3,000,000	3136G2D87	FNMA NOTES (CALLED OMD 02/13/18)	1.00%	2/13/17	15,000.00		
2/25/17	2/25/17	600,000	3134G8L49	FHLMC NOTES (CALLABLE)	0.80%	8/25/17	2,400.00		
2/26/17	2/26/17	3,000,000	3134G8M89	FHLMC NOTES (STEP, CALLED OMD 02/26/18)	1.50%	2/26/17	11,250.00		
2/26/17	2/26/17	3,000,000	3134G8M71	FHLMC NOTES (CALLABLE)	1.05%	2/26/18	15,750.00		
2/28/17	2/28/17	2,870,000	912828B90	US TREASURY NOTES	2.00%	2/28/21	28,700.00		
2/28/17	2/28/17	2,900,000	912828VV9	US TREASURY NOTES	2.12%	8/31/20	30,812.50		
2/28/17	2/28/17	3,000,000	912828B90	US TREASURY NOTES	2.00%	2/28/21	30,000.00		
2/28/17	2/28/17	3,000,000	912828D72	US TREASURY NOTES	2.00%	8/31/21	30,000.00		
3/1/17	3/1/17	0	MONEY0002	MONEY MARKET FUND			780.86		
3/7/17	3/7/17	3,000,000	3137EADP1	FREDDIE MAC GLOBAL NOTES	0.87%	3/7/18	13,125.00		
3/18/17	3/18/17	3,000,000	3134G7TZ4	FHLMC NOTES (EX-CALLABLE)	1.30%	9/18/18	19,500.00		
3/20/17	3/20/17	1,000,000	3135G0PP2	FNMA NOTES (EX-CALLABLE)	1.00%	9/20/17	5,000.00		
3/20/17	3/20/17	3,000,000	3133EGFX8	FFCB NOTES (CALLABLE)	1.01%	9/20/18	15,150.00		
3/29/17	3/29/17	3,000,000	3130A7H73	FHLB NOTES (CALLABLE)	1.00%	3/29/18	15,000.00		
3/31/17	3/31/17	2,950,000	912828F39	US TREASURY NOTES	1.75%	9/30/19	25,812.50		
3/31/17	3/31/17	3,000,000	912828Q37	US TREASURY NOTES	1.25%	3/31/21	18,750.00		
3/31/17	3/31/17	1,890,000	912828C57	US TREASURY NOTES	2.25%	3/31/21	21,262.50		
Total INTEREST		57,930,000					484,543.06		

MATURITY

2/13/17	2/13/17	3,000,000	3136G2D87	FNMA NOTES (CALLED OMD 02/13/18)	1.00%	2/13/17	3,000,000.00		0.00
2/26/17	2/26/17	3,000,000	3134G8M89	FHLMC NOTES (STEP, CALLED OMD 02/26/18)	1.50%	2/26/17	3,000,000.00		0.00
3/13/17	3/13/17	500,000	06538BQD8	BANK OF TOKYO MITSUBISHI COMM PAPER	0.00%	3/13/17	500,000.00		0.00

REDWOOD CITY

Portfolio Activity

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
3/14/17	3/14/17	500,000	22533TQE9	CREDIT AGRICOLE CIB NY COMM PAPER	0.00%	3/14/17	500,000.00		0.00
Total MATURITY		7,000,000					7,000,000.00		0.00
SELL									
1/3/17	1/5/17	3,000,000	3134G73X7	FHLMC NOTES (EX-CALLABLE)	0.72%	10/27/17	3,000,870.00	0.85%	(3,210.00)
1/19/17	1/19/17	1,500,000	3133EEAU4	FFCB NOTES	1.00%	11/6/17	1,504,706.67	0.86%	2,017.60
2/1/17	2/3/17	2,400,000	3134G8L49	FHLMC NOTES (CALLABLE)	0.80%	8/25/17	2,408,426.67	0.80%	0.00
2/2/17	2/9/17	1,680,000	3134G7V24	FHLMC NOTES (EX-CALLABLE)	0.75%	10/27/17	1,682,898.00	0.81%	(672.00)
2/16/17	2/17/17	1,500,000	3133EEAU4	FFCB NOTES	1.00%	11/6/17	1,506,158.33	0.82%	2,268.31
3/9/17	3/10/17	3,000,000	3134G73L3	FHLMC NOTES (EX-CALLABLE)	0.75%	11/16/17	3,001,245.00	1.04%	(5,880.00)
3/15/17	3/17/17	3,000,000	3137EADN6	FHLMC NOTES	0.75%	1/12/18	2,995,002.50	1.12%	(7,827.30)
3/15/17	3/17/17	3,000,000	3130A6UK1	FHLB NOTES (EX-CALLABLE)	1.01%	12/29/17	3,004,075.00	1.12%	(2,490.00)
Total SELL		19,080,000					19,103,382.17		-15,793.39

Investment Strategy

- ◆ Key drivers of market conditions in the first quarter included
 - Federal Reserve policy;
 - the inauguration of President Trump and the early rollout of various policies;
 - continued improvement in consumer confidence; and
 - further stock market appreciation.

- ◆ Yields remained within a narrow range through the first few months before rising strongly in anticipation of the March FOMC rate hike. Yields on the short end of the curve ended the quarter higher, reflecting the rate hike, while long-term yields declined alongside future inflation expectations.

- ◆ We maintained “neutral” durations through January and most of February as market conditions were consistent with an economic outlook for moderate growth. But, seeing that investors had become a bit too complacent about the potential for near-term Fed rate hikes, which resulted in rates being too low in our opinion, we shifted to a modestly short, more defensive posture in late February. Once a March rate hike became imminent, rates rose quickly. We were able to take advantage of the higher yields by extending duration just before the March 15 Fed meeting. Although the Fed raised rates, market yields fell after the meeting as the Fed’s accompanying statement implied a more gradual tightening path than anticipated.

- ◆ Federal agency yield spreads remained historically tight throughout the quarter as demand continued to outpace supply. We evaluated agency spreads across the yield curve and, where possible, took advantage of opportunities to
 - swap out of expensive agency holdings into U.S. Treasuries at similar yields and
 - purchase new issues that offered acceptable yield concessions, mostly in the 2-3 year maturity range.

- ◆ We maintained corporate allocations as the sector continued to provide incremental income and benefit from “roll-down.” We remain positive on the sector but, due to narrowing spread levels, approach the sector with more caution and selectivity. The corporate sector outperformed comparable maturity Treasuries for the sixth straight quarter.

- ◆ Leading up to the effective date of significant money market fund reforms last October, yields on commercial paper (CP) and bank certificate of deposits (CDs) rose sharply in the second half of 2016. Although spreads narrowed somewhat after the March Fed rate hike, short-term credit instruments, like CP and CDs, continued to offer excellent incremental yield opportunities.

INVESTMENT STRATEGY OUTLOOK

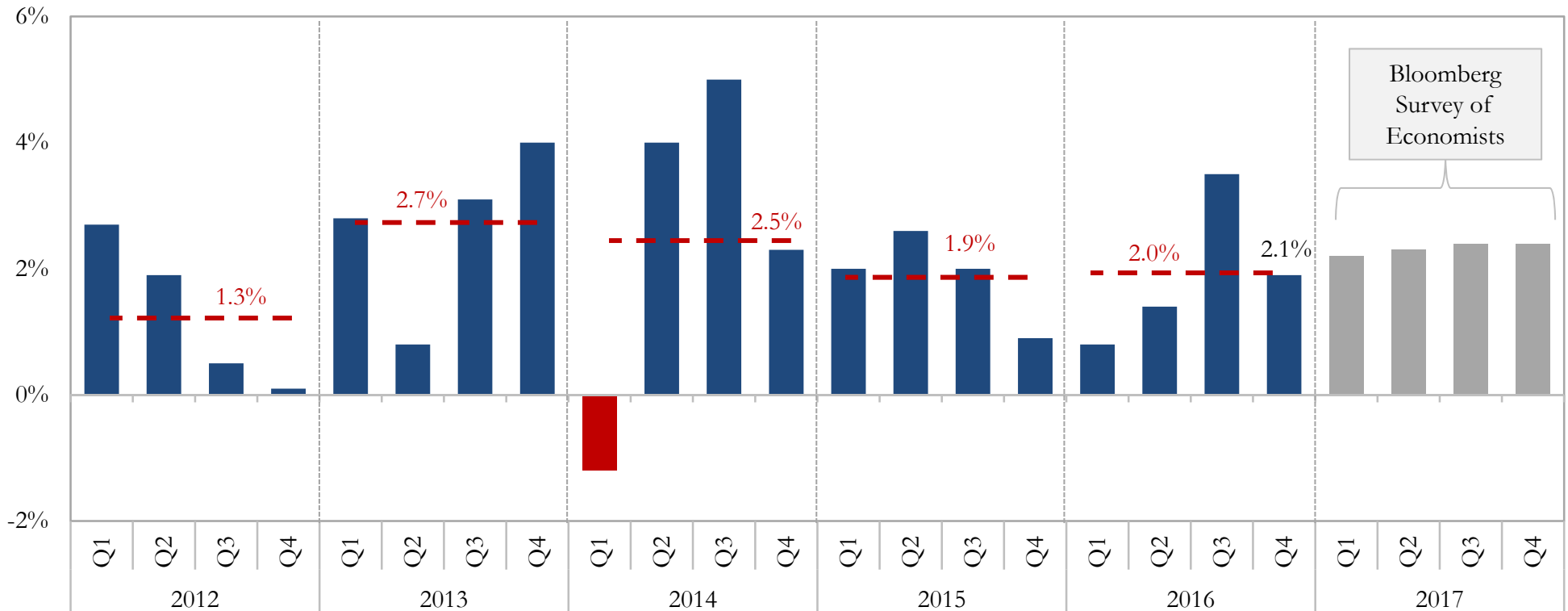
- We anticipate the Fed to remain on track to make two additional rate hikes in 2017, matching the three hikes projected for 2017 by the Federal Open Market Committee's "dot plot." In addition, a potential reduction in the size of the Fed's balance sheet later in the year could have significant implications for the markets.
- As the market awaits clarity on policies proposed and enacted by the Trump administration, financial markets (both bonds and equities) may become more range-bound.
- Since yields are currently stable and we expect no action at the next FOMC meeting in May, we are targeting portfolio durations to closely match that of benchmarks. We will continue to revisit this position regularly, especially in light of the potential for higher yields later in the year. During periods of rising rates, our active management approach, which seeks to maximize long-term returns, may result in the realization of short-term losses. This is in contrast to the gains realized over the past several years, which resulted from generally declining rates.
- Agency yield spreads over Treasuries continue to remain historically narrow. As a result, our strategy will generally favor U.S. Treasuries over agencies unless specific issues offer identifiable value. Supranational issues may also offer opportunities in the space.
- Although yield spreads on corporate securities drifted wider at the end of the first quarter, they remain near multi-year lows. Identifying incremental return potential in the corporate bond sector requires careful relative value analysis. Improving corporate profits, as well as anticipated pro-business measures from the Trump administration, form a favorable backdrop for the credit sector.
- We will continue to evaluate opportunities in the MBS and ABS sectors, purchasing those issues we believe are well structured, offer adequate yield spreads, and which have limited extension and headline risk from Fed balance sheet tapering. We anticipate continuing to add to ABS allocations, where permitted, as the sector offers good incremental return potential.
- Our strategy favors broad allocation to various credit sectors, including corporate notes, negotiable bank CDs, and asset-backed securities.
- Yields on commercial paper and negotiable CDs continue to offer significant yield pickup relative to short-term government securities.
- We will continue to monitor incoming economic data, Fed policy, and sector relationships to identify market opportunities. This will include assessing the impact of additional policies put forth by the Trump administration.

Market Update

Moderate but Stable Growth

- Gross domestic product (GDP) grew 2.1% in the fourth quarter of 2016 (final estimate), ending the year with an average 2.0% rate of growth.
- A Bloomberg survey of economists project that GDP will increase at a rate of 2.3% for 2017.

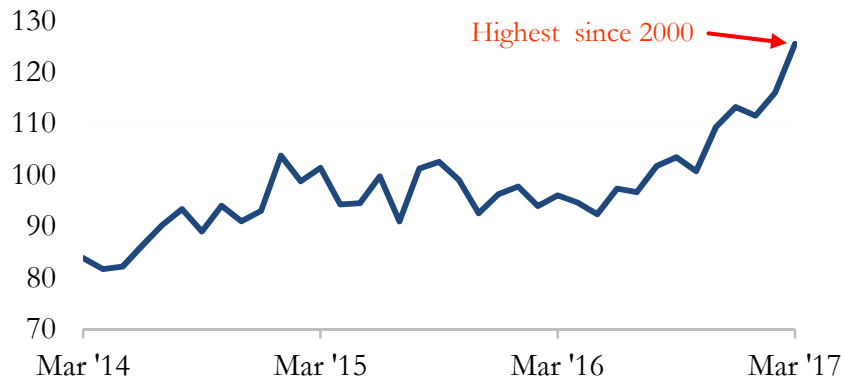
**U.S. Real GDP
QoQ, SAAR**



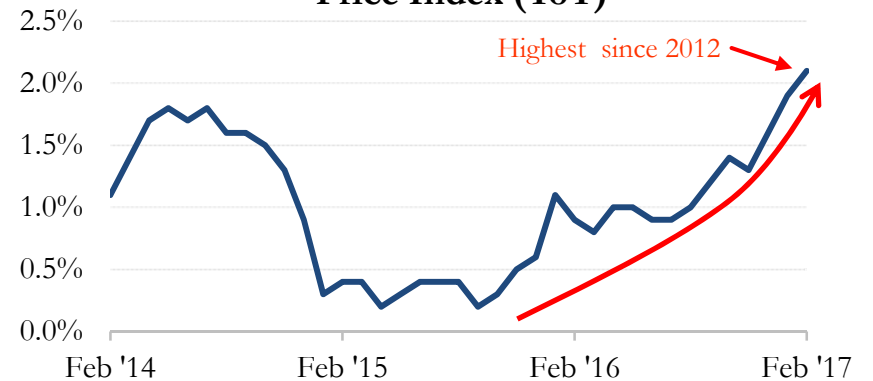
Source: Bloomberg, as of 03/31/17. SAAR is seasonally adjusted annualized rate.

The Sweet Spots of the U.S. Economy

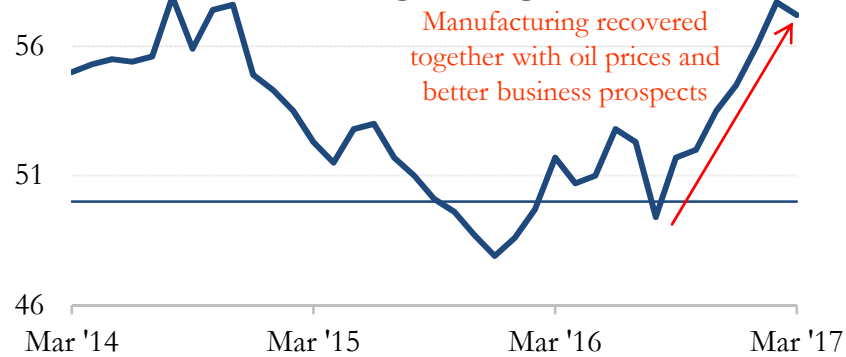
Consumer Confidence



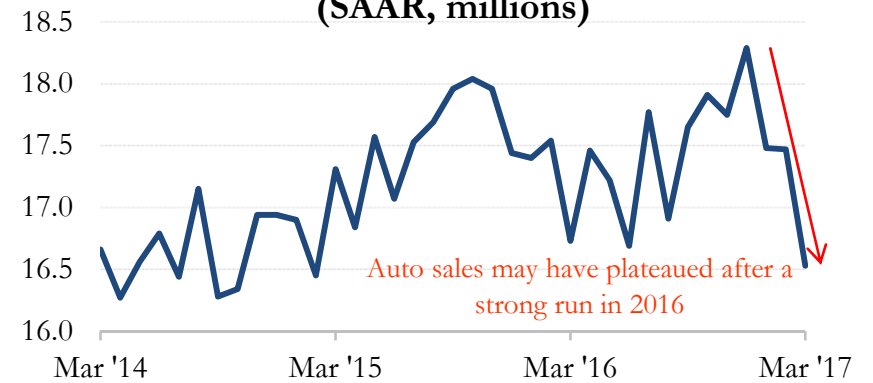
Personal Consumption Expenditure Price Index (YoY)



ISM Manufacturing Purchasing Manager Index



U.S. Auto Sales (SAAR, millions)

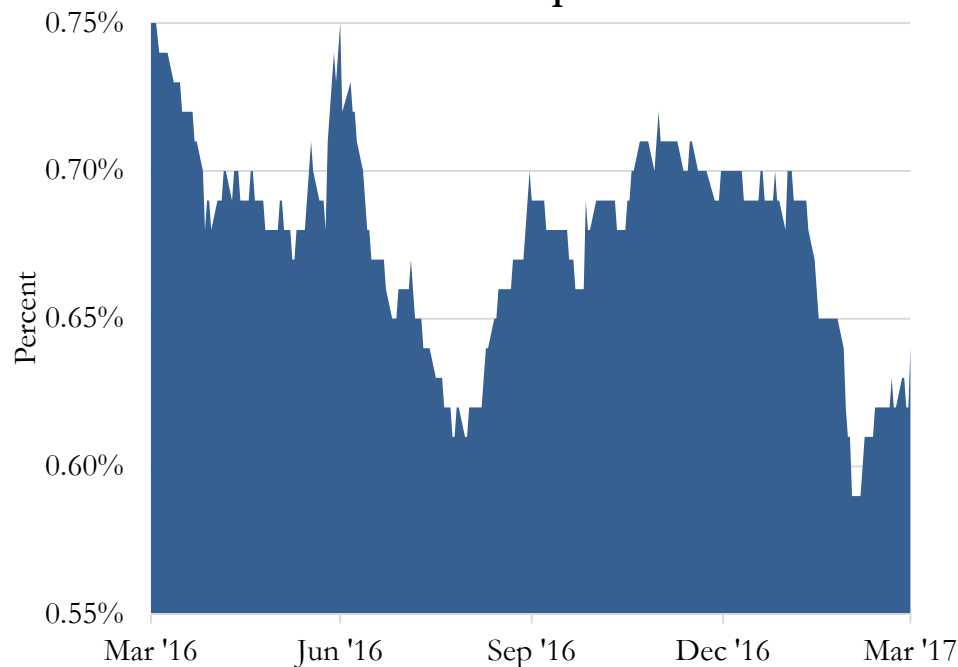


Source: Bloomberg, as of 03/31/17. SAAR is seasonally adjusted annualized rate.

Corporate Sector Optimism

- Corporate markets reflected improving credit fundamentals and optimism related to anticipated pro-business policies such as corporate tax reform and deregulation.
- After tightening to their narrowest levels since 2014, corporate yield spreads began to drift wider toward the end of the quarter.

Yield Spread between 1-3 U.S. Treasury Index and 1-3 A-AAA Corporate Index*



S&P 500 Index

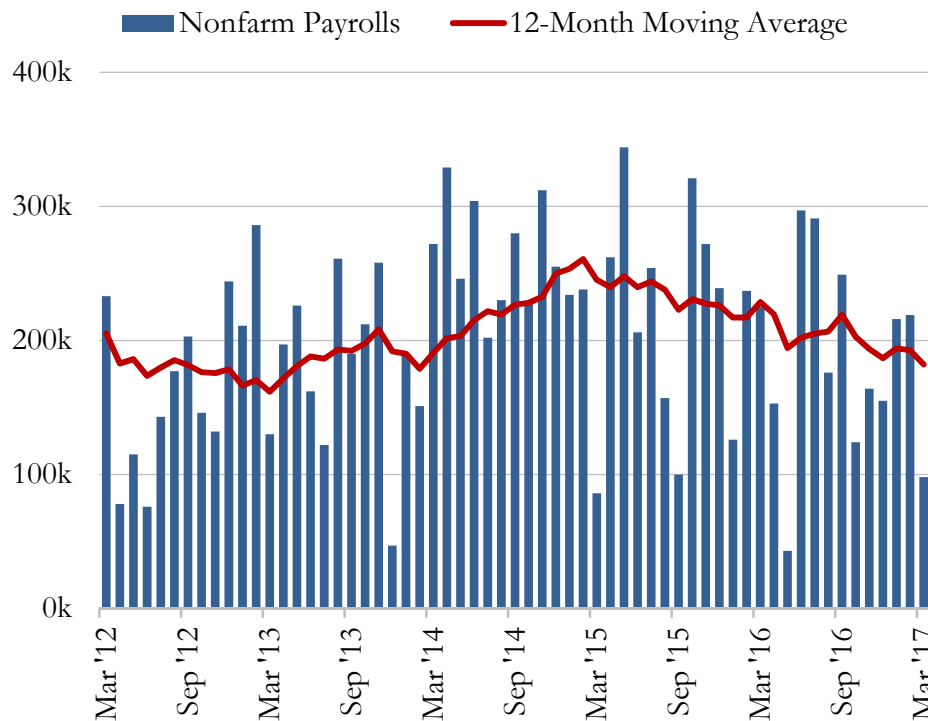


*Bank of America Merrill Lynch Indexes
Source: Bloomberg, as of 03/31/17.

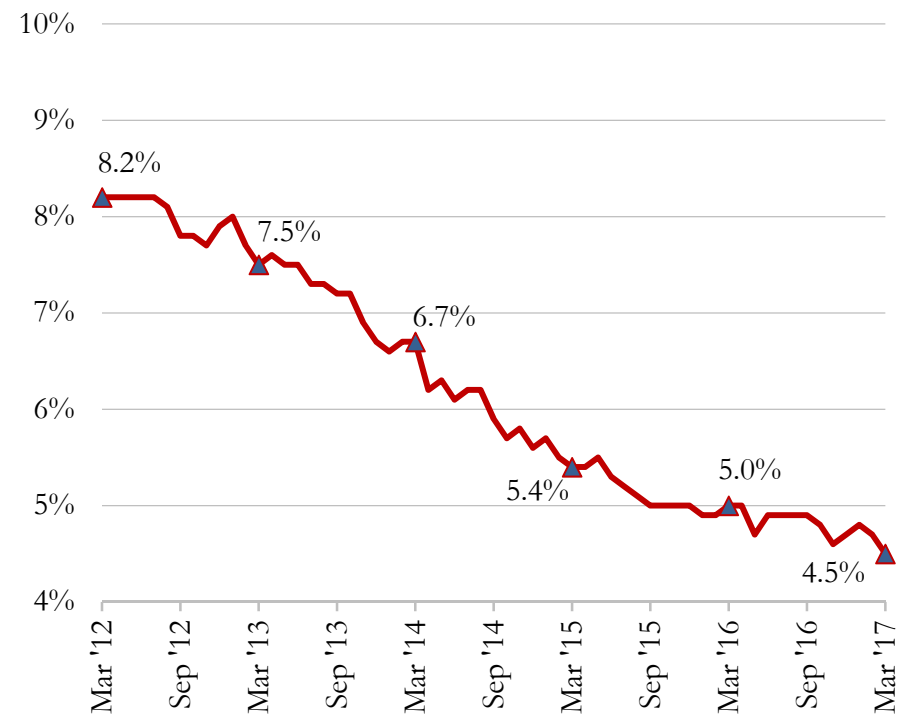
Labor Market

- The U.S. labor market created 98,000 jobs in March, below expectations of 180,000. Total jobs added during the first quarter were 533,000.
- The headline unemployment rate fell to 4.5% while the U-6 rate, which includes underemployed and discouraged workers, dropped to 8.9%, the lowest since 2007.
- The growth rate of average hourly earnings – an important gauge of wage growth – averaged 2.7% over the past 12 months.

Monthly Change in Nonfarm Payrolls



Unemployment Rate



Source: Bloomberg, as of 03/31/17.

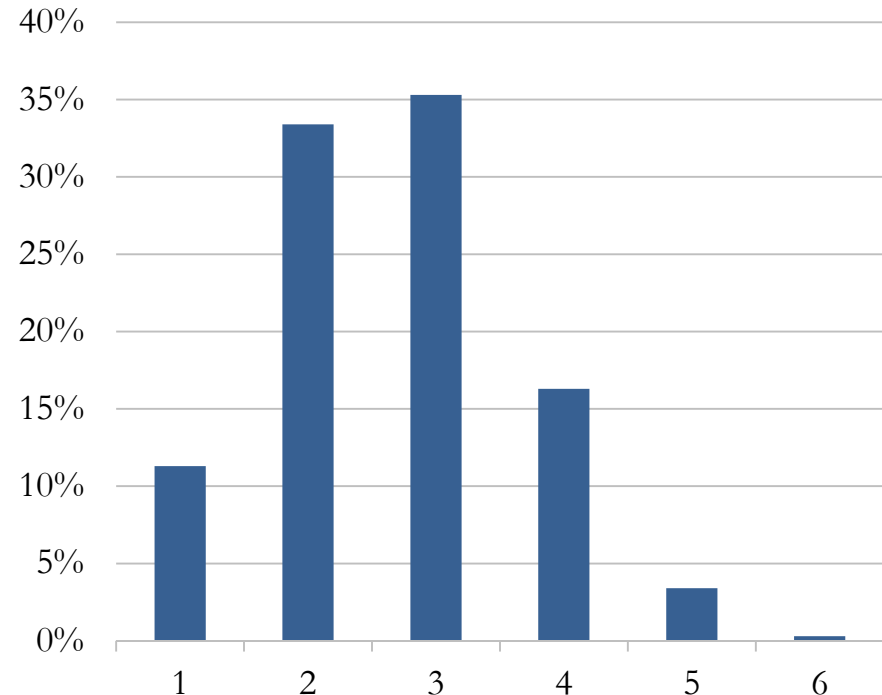
On the Horizon: Higher Rates

- The Federal Open Market Committee (the “FOMC”) indicated on March 15th that it expects economic conditions to evolve in a manner that will warrant gradual increases in the federal funds rate.
- According to the “dot plot”, Fed officials are expecting to see three rate hikes in 2017, which is aligned with current market expectations.

When Will the Next Rate Hike Occur?

Meeting	3/31/17
5/3/17	13%
6/14/17	57%
7/26/17	63%
9/20/17	80%
11/1/17	82%
12/31/17	89%
1/31/18	89%

Market Implied Total Number of Rate Hikes Expected in 2017

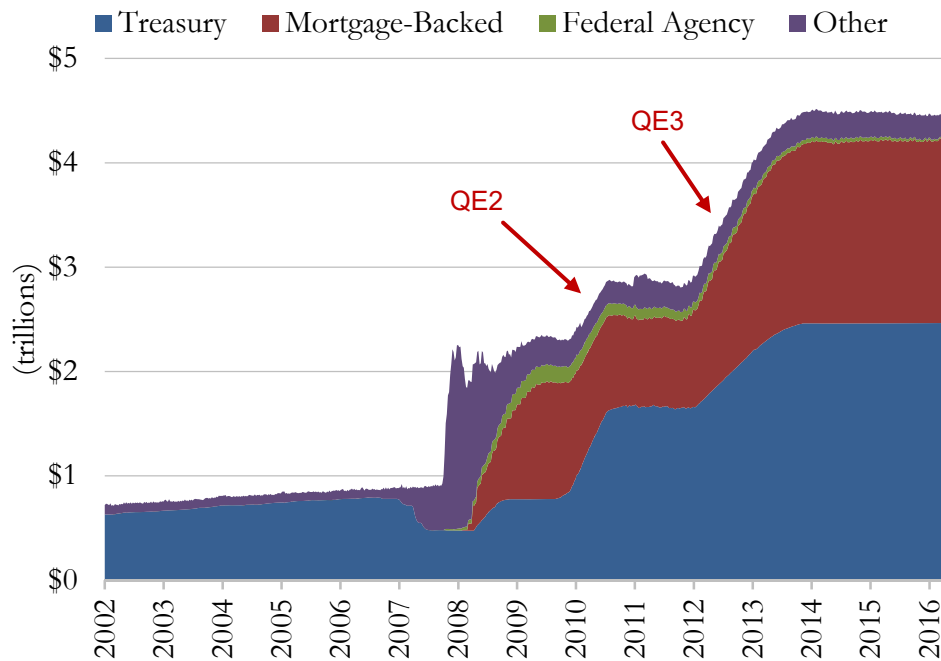


Source: Bloomberg and Federal Reserve, as of 03/31/17.

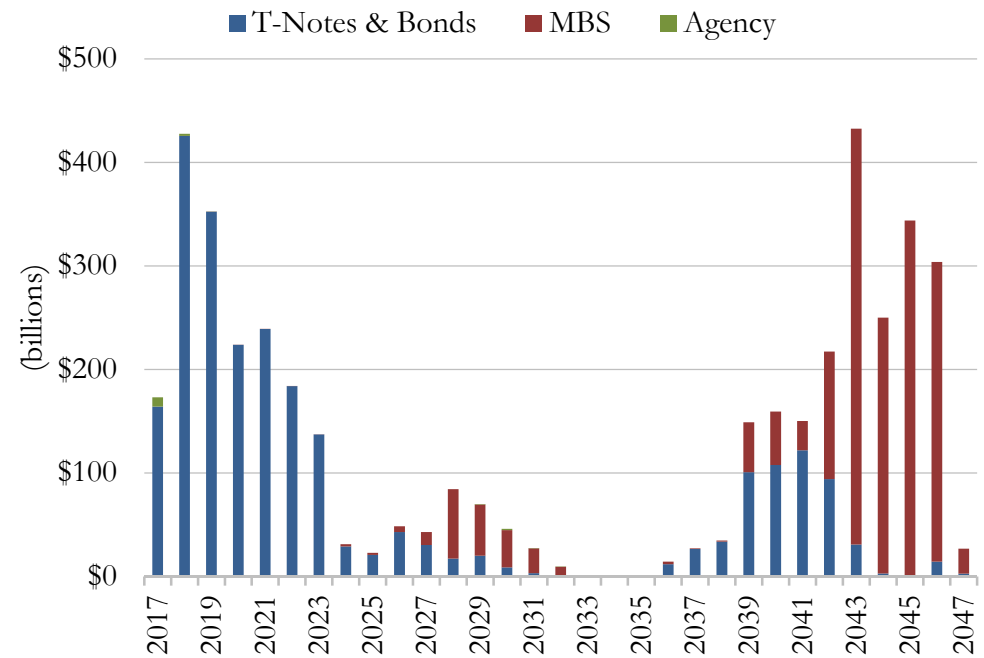
FOMC Meeting Focus: Fed's Balance Sheet

- After multiple rounds of quantitative easing, the Federal Reserve's balance sheet has swelled from under \$1 trillion to approximately \$4.5 trillion.
- March meeting highlights: "participants agreed that reductions in the Federal Reserve's securities holdings should be gradual and predictable, and accomplished primarily by phasing out reinvestments... Most participants anticipated that gradual increases in the federal funds rate would continue and judged that a change to the Committee's reinvestment policy would likely be appropriate later this year."

Total Balance Sheet Assets of the Federal Reserve



Maturity Distribution of Balance Sheet Assets

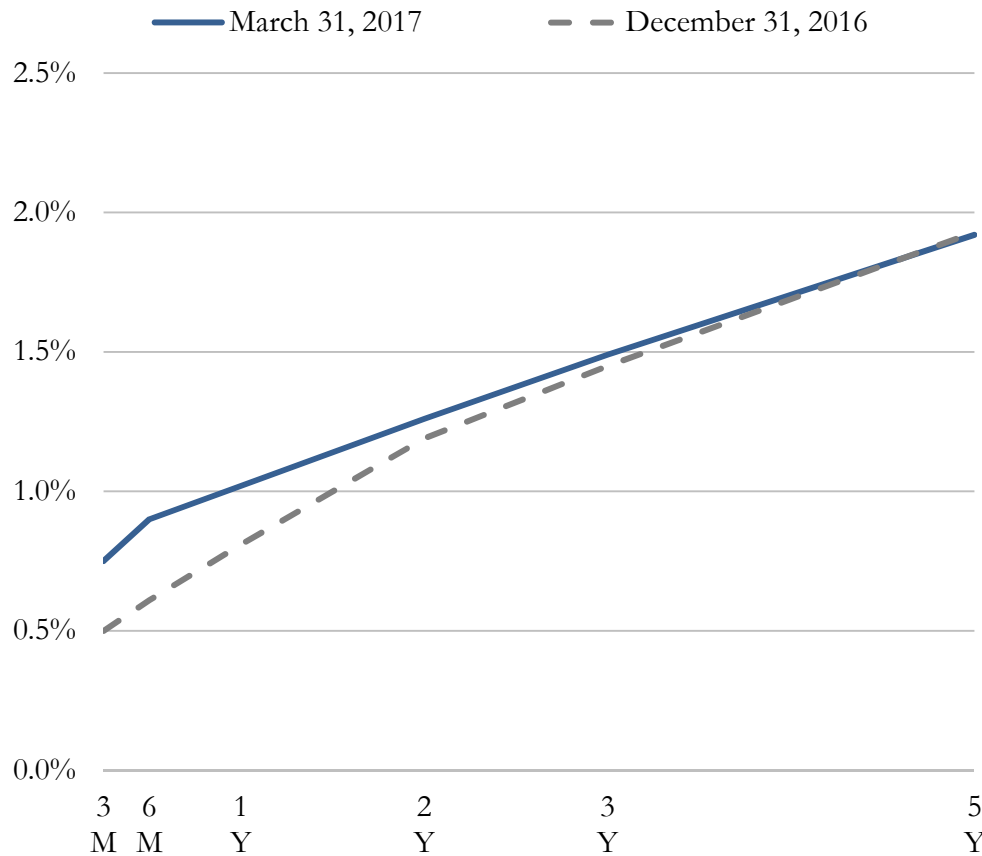


Source: The Federal Reserve, FRB of St. Louis, as of 03/29/17.

Flattening Yield Curve

- Yields remained range-bound at the beginning of the quarter before rising strongly in anticipation of the March FOMC rate hike. Yields on the short-end of the curve ended the quarter higher, reflecting the rate hike, while long-term yields generally held steady.

U.S. Treasury Yield Curve



Yield Curve History

Maturity	12/31/16	03/31/17	Change
1-Mo.	0.42	0.73	+0.31
3-Mo.	0.50	0.75	+0.25
6-Mo.	0.61	0.90	+0.29
1-Yr.	0.81	1.02	+0.21
2-Yr.	1.19	1.26	+0.07
3-Yr.	1.45	1.49	+0.04
5-Yr.	1.93	1.92	-0.01

Source: Bloomberg, as of 03/31/17.

Account Holdings



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

REDWOOD CITY

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	2,950,000.00	AA+	Aaa	10/28/16	10/31/16	2,998,744.14	0.95	20,128.45	2,990,635.07	2,970,396.30
US TREASURY NOTES DTD 09/30/2014 1.750% 09/30/2019	912828F39	2,950,000.00	AA+	Aaa	10/28/16	10/31/16	3,013,378.91	1.00	141.05	3,004,419.89	2,976,387.75
US TREASURY NOTES DTD 10/31/2014 1.500% 10/31/2019	912828F62	1,475,000.00	AA+	Aaa	11/07/16	11/08/16	1,497,067.38	0.99	9,290.06	1,494,156.65	1,477,995.73
US TREASURY NOTES DTD 10/31/2014 1.500% 10/31/2019	912828F62	2,000,000.00	AA+	Aaa	03/01/17	03/02/17	2,000,781.25	1.48	12,596.69	2,000,763.22	2,004,062.00
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	2,920,000.00	AA+	Aaa	09/08/16	09/09/16	2,947,831.25	0.96	6,049.72	2,943,325.87	2,901,180.60
US TREASURY NOTES DTD 05/31/2013 1.375% 05/31/2020	912828VF4	2,945,000.00	AA+	Aaa	09/28/16	09/29/16	2,984,803.52	1.00	13,572.08	2,979,423.04	2,926,478.90
US TREASURY NOTES DTD 05/31/2013 1.375% 05/31/2020	912828VF4	2,955,000.00	AA+	Aaa	08/26/16	08/29/16	2,989,398.05	1.06	13,618.17	2,984,097.18	2,936,416.01
US TREASURY NOTES DTD 09/03/2013 2.125% 08/31/2020	912828VV9	2,900,000.00	AA+	Aaa	09/12/16	09/13/16	3,010,335.94	1.14	5,358.70	2,995,293.74	2,945,651.80
US TREASURY NOTE DTD 12/02/2013 2.000% 11/30/2020	912828A42	1,440,000.00	AA+	Aaa	11/07/16	11/08/16	1,485,787.50	1.20	9,652.75	1,481,427.01	1,454,736.96
US TREASURY NOTE DTD 12/02/2013 2.000% 11/30/2020	912828A42	2,890,000.00	AA+	Aaa	08/24/16	08/25/16	2,998,149.22	1.10	19,372.53	2,983,243.48	2,919,576.26
US TREASURY NOTES DTD 02/28/2014 2.000% 02/28/2021	912828B90	2,870,000.00	AA+	Aaa	09/28/16	09/29/16	2,980,988.28	1.10	4,991.30	2,968,537.09	2,895,112.50
US TREASURY NOTES DTD 02/28/2014 2.000% 02/28/2021	912828B90	3,000,000.00	AA+	Aaa	10/03/16	10/05/16	3,109,218.75	1.15	5,217.39	3,097,336.05	3,026,250.00
US TREASURY NOTES DTD 03/31/2014 2.250% 03/31/2021	912828C57	1,890,000.00	AA+	Aaa	09/02/16	09/06/16	1,979,258.20	1.18	116.19	1,968,414.21	1,923,517.26
US TREASURY NOTES DTD 03/31/2016 1.250% 03/31/2021	912828O37	3,000,000.00	AA+	Aaa	03/15/17	03/17/17	2,914,453.13	1.99	102.46	2,915,298.48	2,938,125.00



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

REDWOOD CITY

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U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 09/02/2014 2.000% 08/31/2021	912828D72	3,000,000.00	AA+	Aaa	12/01/16	12/05/16	3,008,203.13	1.94	5,217.39	3,007,702.23	3,016,641.00
US TREASURY NOTES DTD 10/31/2016 1.250% 10/31/2021	912828T67	2,000,000.00	AA+	Aaa	03/01/17	03/02/17	1,936,015.63	1.97	10,497.24	1,937,109.94	1,943,984.00
US TREASURY NOTES DTD 10/31/2014 2.000% 10/31/2021	912828F96	3,000,000.00	AA+	Aaa	01/03/17	01/05/17	3,006,679.69	1.95	25,193.37	3,006,388.11	3,013,710.00
US TREASURY NOTES DTD 02/02/2015 1.500% 01/31/2022	912828H86	2,000,000.00	AA+	Aaa	03/01/17	03/02/17	1,953,437.50	2.00	4,972.38	1,954,189.50	1,960,624.00
US TREASURY N/B NOTES DTD 03/02/2015 1.750% 02/28/2022	912828J43	3,000,000.00	AA+	Aaa	03/15/17	03/17/17	2,944,687.50	2.14	4,565.22	2,945,122.05	2,973,516.00

Security Type Sub-Total		49,185,000.00					49,759,218.97	1.38	170,653.14	49,656,882.81	49,204,362.07
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Federal Agency Bond / Note											
FHLMC NOTES (CALLABLE) DTD 02/25/2016 0.800% 08/25/2017	3134G8L49	600,000.00	AA+	Aaa	02/25/16	02/25/16	600,000.00	0.80	480.00	600,000.00	599,659.80
FNMA NOTES (EX-CALLABLE) DTD 09/20/2012 1.000% 09/20/2017	3135G0PP2	1,000,000.00	AA+	Aaa	11/14/14	11/14/14	999,380.00	1.02	305.56	999,897.09	1,000,058.00
FHLMC NOTES (EX-CALLABLE) DTD 10/27/2015 0.750% 10/27/2017	3134G7V24	1,320,000.00	AA+	Aaa	10/27/15	10/27/15	1,320,000.00	0.75	4,235.00	1,320,000.00	1,318,565.16
FHLMC NOTES (CALLABLE) DTD 11/24/2015 0.850% 11/24/2017	3134G74Q1	3,000,000.00	AA+	Aaa	11/24/15	11/24/15	3,000,000.00	0.85	8,995.83	3,000,000.00	2,995,566.00
FHLMC NOTES (CALLABLE) DTD 11/24/2015 0.850% 11/24/2017	3134G74Q1	3,000,000.00	AA+	Aaa	11/24/15	11/24/15	3,000,000.00	0.85	8,995.83	3,000,000.00	2,995,566.00
FHLMC NOTES (CALLABLE) DTD 10/30/2015 0.850% 01/26/2018	3134G76P1	3,000,000.00	AA+	Aaa	10/30/15	10/30/15	3,000,000.00	0.85	4,604.17	3,000,000.00	2,989,926.00
FHLMC NOTES (CALLABLE) DTD 02/26/2016 1.050% 02/26/2018	3134G8M71	3,000,000.00	AA+	Aaa	02/26/16	02/26/16	3,000,000.00	1.05	3,062.50	3,000,000.00	2,997,942.00
FREDDIE MAC GLOBAL NOTES DTD 01/17/2013 0.875% 03/07/2018	3137EADP1	3,000,000.00	AA+	Aaa	09/09/15	09/09/15	2,996,304.90	0.93	1,750.00	2,998,607.79	2,993,214.00



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

REDWOOD CITY

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Federal Agency Bond / Note											
FHLB NOTES (CALLABLE) DTD 03/29/2016 1.000% 03/29/2018	3130A7H73	3,000,000.00	AA+	Aaa	03/29/16	03/29/16	3,000,000.00	1.00	166.67	3,000,000.00	2,995,827.00
FHLMC REFERENCE NOTE DTD 04/07/2016 0.750% 04/09/2018	3137EAEA3	3,000,000.00	AA+	Aaa	05/18/16	05/18/16	2,997,180.00	0.80	10,750.00	2,998,472.97	2,988,144.00
FHLMC NOTES (EX-CALLABLE) DTD 04/11/2016 1.050% 04/11/2018	3134G8UD9	3,000,000.00	AA+	Aaa	04/11/16	04/11/16	3,000,000.00	1.05	14,875.00	3,000,000.00	2,997,369.00
FHLMC NOTES (CALLABLE) DTD 05/25/2016 1.000% 05/25/2018	3134G9HC4	3,000,000.00	AA+	Aaa	05/25/16	05/25/16	3,000,000.00	1.00	10,500.00	3,000,000.00	2,993,301.00
FHLMC NOTES (EX-CALLABLE) DTD 09/18/2015 1.300% 09/18/2018	3134G7TZ4	3,000,000.00	AA+	Aaa	09/18/15	09/18/15	3,000,000.00	1.30	1,408.33	3,000,000.00	3,005,574.00
FFCB NOTES (CALLABLE) DTD 06/20/2016 1.010% 09/20/2018	3133EGFX8	3,000,000.00	AA+	Aaa	06/20/16	06/20/16	3,000,000.00	1.01	925.83	3,000,000.00	2,984,112.00
FHLMC NOTES (CALLABLE) DTD 06/28/2016 1.000% 12/28/2018	3134G9ZR1	3,000,000.00	AA+	Aaa	06/28/16	06/28/16	3,000,000.00	1.00	7,750.00	3,000,000.00	2,984,664.00
FHLB NOTES DTD 12/08/2016 1.250% 01/16/2019	3130AAE46	2,000,000.00	AA+	Aaa	12/07/16	12/08/16	1,999,920.00	1.25	5,208.33	1,999,926.28	1,998,088.00
FEDERAL HOME LOAN BANK AGENCY DTD 03/10/2017 1.375% 03/18/2019	3130AAXX1	3,000,000.00	AA+	Aaa	03/09/17	03/10/17	2,993,040.00	1.49	1,489.58	2,993,235.12	3,000,858.00
FHLMC NOTES (CALLABLE) DTD 04/26/2016 1.150% 04/26/2019	3134G9AW7	3,000,000.00	AA+	Aaa	04/26/16	04/26/16	3,000,000.00	1.15	14,854.17	3,000,000.00	2,985,756.00
FNMA NOTES (CALLABLE) DTD 05/24/2016 1.200% 05/24/2019	3136G3MC6	3,000,000.00	AA+	Aaa	05/24/16	05/24/16	3,000,000.00	1.20	12,700.00	3,000,000.00	2,973,315.00
FHLMC NOTES (CALLABLE) DTD 05/27/2016 1.125% 05/24/2019	3134G9MA2	3,000,000.00	AA+	Aaa	05/27/16	05/27/16	3,000,000.00	1.13	11,906.25	3,000,000.00	2,972,223.00
FREDDIE MAC NOTES DTD 04/16/2012 1.750% 05/30/2019	3137EADG1	2,000,000.00	AA+	Aaa	03/01/17	03/02/17	2,014,780.00	1.41	11,763.89	2,014,261.50	2,015,668.00
FHLB NOTES (CALLABLE) DTD 06/13/2016 1.200% 06/13/2019	3130A8EK5	3,000,000.00	AA+	Aaa	06/14/16	06/14/16	3,000,000.00	1.20	10,800.00	3,000,000.00	2,973,213.00



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

REDWOOD CITY

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Federal Agency Bond / Note											
FNMA NOTES (CALLABLE) DTD 06/28/2016 1.200% 06/28/2019	3136G3TD7	3,000,000.00	AA+	Aaa	06/28/16	06/28/16	3,000,000.00	1.20	9,300.00	3,000,000.00	2,979,252.00
FNMA NOTES (CALLABLE) DTD 06/28/2016 1.250% 06/28/2019	3135G0K93	5,000,000.00	AA+	Aaa	06/28/16	06/28/16	5,000,000.00	1.25	16,145.83	5,000,000.00	4,975,380.00
FANNIE MAE GLOBAL NOTES DTD 10/25/2016 1.000% 10/24/2019	3135G0R39	1,500,000.00	AA+	Aaa	12/14/16	12/15/16	1,479,660.00	1.49	6,500.00	1,481,720.61	1,481,725.50
FNMA NOTES DTD 02/28/2017 1.500% 02/28/2020	3135G0T29	1,495,000.00	AA+	Aaa	02/24/17	02/28/17	1,494,043.20	1.52	1,931.04	1,494,070.45	1,491,401.54
FNMA NOTES DTD 02/28/2017 1.500% 02/28/2020	3135G0T29	3,000,000.00	AA+	Aaa	03/01/17	03/02/17	2,985,300.00	1.67	3,875.00	2,985,691.83	2,992,779.00
FANNIE MAE AGENCY NOTES DTD 01/09/2017 2.000% 01/05/2022	3135G0S38	2,825,000.00	AA+	Aaa	02/10/17	02/13/17	2,827,796.75	1.98	12,869.44	2,827,729.60	2,823,946.28

Security Type Sub-Total		74,740,000.00					74,707,404.85	1.16	198,148.25	74,713,613.24	74,503,093.28
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Corporate Note											
JPMORGAN CHASE & CO NOTES DTD 12/20/2007 6.000% 01/15/2018	46625HGY0	2,400,000.00	A-	A3	08/26/16	08/31/16	2,549,952.00	1.39	30,400.00	2,486,535.67	2,481,014.40
WACHOVIA CORP NOTES DTD 01/31/2008 5.750% 02/01/2018	92976WBH8	2,400,000.00	A	A2	08/30/16	09/02/16	2,550,888.00	1.25	23,000.00	2,489,234.54	2,475,420.00
CHEVRON CORP CORP NOTES DTD 03/03/2017 1.686% 02/28/2019	166764BS8	590,000.00	AA-	Aa2	02/28/17	03/03/17	590,000.00	1.69	773.69	590,000.00	590,620.09
IBM CORP NOTES DTD 01/27/2017 1.900% 01/27/2020	459200JN2	2,400,000.00	AA-	Aa3	02/01/17	02/03/17	2,399,016.00	1.91	8,106.67	2,399,068.87	2,408,004.00
APPLE INC BONDS DTD 02/09/2017 1.900% 02/07/2020	037833CK4	2,500,000.00	AA+	Aa1	02/09/17	02/14/17	2,500,575.00	1.89	6,861.11	2,500,550.83	2,507,277.50

Security Type Sub-Total		10,290,000.00					10,590,431.00	1.61	69,141.47	10,465,389.91	10,462,335.99
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Commercial Paper											
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Managed Account Detail of Securities Held

For the Month Ending **March 31, 2017**

REDWOOD CITY

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Commercial Paper											
BNP PARIBAS NY BRANCH COMM PAPER -- 0.000% 06/06/2017	09659BT67	500,000.00	A-1	P-1	09/09/16	09/12/16	494,956.67	1.37	0.00	498,753.34	499,057.50
BANK OF TOKYO MITSUBISHI UFJ LTD COMM PA DTD 03/08/2017 0.000% 09/13/2017	06538BWD1	500,000.00	A-1	P-1	03/13/17	03/13/17	496,396.67	1.42	0.00	496,768.75	496,892.00
BANK OF TOKYO MITSUBISHI UFJ LTD COMM PA DTD 03/20/2017 0.000% 09/20/2017	06538BWL3	750,000.00	A-1	P-1	03/17/17	03/20/17	744,595.00	1.42	0.00	744,947.50	745,065.75
CANADIAN IMPERIAL HLDING COMM PAPER DTD 01/18/2017 0.000% 10/13/2017	13607EXD6	1,500,000.00	A-1	P-1	01/18/17	01/19/17	1,484,591.88	1.40	0.00	1,488,746.87	1,489,800.00
COOPERATIEVE RABOBANK U.A. COMM PAPER DTD 02/16/2017 0.000% 10/23/2017	21687AXP3	1,500,000.00	A-1	P-1	02/16/17	02/17/17	1,486,773.33	1.29	0.00	1,489,066.67	1,489,657.50
Security Type Sub-Total		4,750,000.00					4,707,313.55	1.37	0.00	4,718,283.13	4,720,472.75
Managed Account Sub-Total		138,965,000.00					139,764,368.37	1.28	437,942.86	139,554,169.09	138,890,264.09
Securities Sub-Total		\$138,965,000.00					\$139,764,368.37	1.28%	\$437,942.86	\$139,554,169.09	\$138,890,264.09
Accrued Interest											\$437,942.86
Total Investments											\$139,328,206.95

Important Disclosures

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- Market values which include accrued interest, are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg or Telerate. Where prices are not available from generally recognized sources the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount, expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more that can be traded in secondary markets.

Glossary

- **PAR VALUE:** The nominal dollar face amount of a security.
- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction occurs on a non-business day (i.e. coupon payments and maturity proceeds), the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred however the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed however the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value and the time period remaining until maturity, stated as a percentage, on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return, based on the original cost, the annual interest receipts, maturity value and the time period from purchase date to maturity, stated as a percentage, on an annualized basis.