



# City Treasurer’s Pooled Investment Fund

## Quarterly Portfolio Review

Quarter ended

3/31/16

Publication Date: 4/29/16

### Office of the City Treasurer—Investments Division

#### Economic Commentary

##### Quarterly Economic Highlights

- The U.S. unemployment rate ended the quarter at 5.0%
- The U.S. stock market, as measured by the S&P 500, rose by 0.77% during the quarter
- Crude Oil futures fell by 4.1% to end at \$38.34/barrel
- The Fed Funds target rate remained at a range of 0.25-0.50%
- Gold increased 16.14% to close at \$1,232.71/troy oz.

After hiking interest rates for the first time in over 9 years in December, the Federal Open Market Committee (FOMC) paused at both the January and March meetings, holding the Fed Funds target range at 0.25%-0.50%.

The statements that accompanied both meetings were fairly dovish, and indicated that the FOMC was closely monitoring developments abroad and with the financial markets. Additionally, after the March meeting, the FOMC median year-end Fed Funds forecasts for both 2016 and 2017 were lowered by 0.50%. Further out, the median Fed Funds forecast for 2018 was lowered by 0.325%, and the longer-run neutral rate fell to 3.325%.

Due to the lowered rate guidance, and the hesitancy of the FOMC to raise interest rates, rates further out the yield curve dropped during the quarter, with 2-, 3-, 5-, and 10-year Treasury yields falling by 33 basis points, 46 basis points, 56 basis points and 50 basis points, respectively.

Risky assets were extremely volatile during the quarter. The U.S. stock market fell by over 10 percent at one point before finishing slightly positive for the quarter. The same pattern was seen in global stock markets, investment-grade and high-yield corporate bonds, and commodities.

Economic reports were mixed during the quarter. GDP for the fourth quarter came in below expectations at +0.7% growth over the prior quarter, though this figure was ultimately revised up to +1.4%. Manufacturing continued to show weakness, as the ISM Manufacturing index continued its string of sub -50 readings (indicates contraction) before finally printing at 51.4 for March.

The U.S. Labor market continued to show strength. Non-farm payrolls increased by 215,000 in March and averaged a monthly gain of over 209,000 jobs for the quarter, well ahead of expectations. The unemployment rate finished at 5.0%, after dipping to 4.9% in January and February. The reason for the uptick in

March was actually positive, since it was due to an increase in the Labor Force Participation Rate, which moved up to 63%, off of the low of 62.4% set in September 2015. This is a positive development, as it signals more people are confident in their ability to find a job. Even average hourly earnings increased in March, rising 0.3% month-over-month and 2.3% year-over-year. Despite the amount of new jobs added over the course of the recovery, the increase in wages has been depressed, and if this is the beginning of a sustained uptrend, it could portend higher inflation and a more aggressive Fed going forward.

The price of gold surged during the quarter, rising over 16%, which made it the best performing asset class for the quarter. It was the best quarterly performance for the precious metal in almost 30 years. Experts attribute the rise to the continued low (and for some countries negative) interest rate environment, the halt in the rise of the U.S. dollar, and concerns about the future pace of global economic growth.

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## Hot Topic Corner— Less Than Zero

Even though the FOMC raised interest rates at the December meeting, there has been a lot of speculation about the possibility of them instituting a negative interest rate policy in the next year or two.

While just conjecture at this point, such talk is not without merit. After all, the FOMC has swung to a more dovish tone recently, and the possibility of further rate increases, based on market-implied probabilities, has been decreasing lately. Add to that the very real possibility of the U.S. economy entering recession in the next few years. With rates still so

low, it would only take two 25 basis point cuts to bring the Fed Funds rate into negative territory.

A negative rate policy is also not without precedent, with five central banks around the world having lowered rates below the zero bound. The FOMC itself has studied the feasibility and potential ramifications of instituting negative rates, according to a staff memo from August 2010.

There are several important questions regarding negative rates in the U.S. The first is whether it would be legal. In the above-referenced memo, the Fed indicated that more staff analysis

would be required to determine whether the Federal Reserve Act permits negative rates.

The second, and more important question, is whether it would work. So far, negative rates have yet to lift any of the economies utilizing them out of the deflationary environment in which they're currently mired.

Part of the reason for the ineffectiveness of a negative rate policy is the fact that at some point, when rates go low enough, institutions and people will start hoarding cash. This has already begun in places like Switzerland and Japan, where demand for

high-denomination bills has skyrocketed.

Sure enough, Keynesian economists and central bankers have begun to speak out against cash. None other than former Treasury Secretary Larry Summers has recommended the U.S. stop printing \$100 bills, using the excuse that they're mainly used to facilitate criminal activity. However, this is a very transparent ploy to prevent the hoarding of cash in the event of negative rates here in the U.S., which would force people to either lose a portion of their money every month, invest in risky assets, or spend the cash.

**(continued on page 10)**

## Key Economic Indicators

| <i>Indicator</i>                        | <i>Period</i> | <i>Report Current</i> | <i>As Reported Last Quarter</i> | <i>Difference</i> |
|---|---------------|-----------------------|---------------------------------|-------------------|
| Federal Funds Rate                      | 3/16/2016     | 0.25-0.50%            | 0-0.25%                         | 0.00%             |
| Consumer Price Index (MoM)              | MAR           | 0.1%                  | (0.1%)                          | 0.2%              |
| Consumer Price Index (YoY)              | MAR           | 0.9%                  | 0.7%                            | 0.2%              |
| Producer Price Index (MoM)              | MAR           | (0.1%)                | (0.2%)                          | 0.1%              |
| Producer Price Index (YoY)              | MAR           | (0.1%)                | (1.0%)                          | 0.9%              |
| Durable Goods Orders                    | MAR           | 0.8%                  | (5.1%)                          | 5.9%              |
| ISM (Manufacturing)                     | MAR           | 51.8                  | 48.2                            | 3.6               |
| ISM (Non-manufacturing)                 | MAR           | 54.5                  | 55.3                            | (0.8)             |
| Retail Sales                            | MAR           | (0.3%)                | (0.1%)                          | (0.2%)            |
| Unemployment Rate                       | MAR           | 5.0%                  | 5.0%                            | 0.0%              |
| Change in Non-farm Payrolls             | MAR           | 215,000               | 292,000                         | (77,000)          |
| Consumer Confidence (Univ. of Michigan) | APR (P)       | 89.7                  | 93.3                            | (3.6)             |
| Existing Home Sales                     | MAR           | 5.33(mil)             | 5.46(mil)                       | (0.13)(mil)       |
| New Home Sales                          | MAR           | 0.511(mil)            | 0.544(mil)                      | (0.033)(mil)      |
| Housing Starts                          | MAR           | 1.089(mil)            | 1.149(mil)                      | (0.060)(mil)      |
| Median Home Price (existing) [EHSLMP]   | MAR           | \$224,300             | \$226,000                       | (\$1,700)         |
| NYMEX WTI CRUDE OIL (barrel)            | 3/31/16       | \$38.34               | \$37.04                         | \$1.30            |
| S&P 500 Stock Index                     | 3/31/16       | 2059.74               | 2043.94                         | 15.8              |

## Portfolio Performance

The Core Portfolio underperformed its benchmark, the Bank of America Merrill Lynch 1-3 year Treasury Index, posting a return of 0.867% versus index performance of 0.905% during the quarter.

Chart 1 shows a yield curve that bull flattened during the quarter, as longer maturity securities decreased in yield more than shorter maturity securities. This was mainly due to dovish comments by the FOMC at both the January and March meetings.

As we were short duration versus the index while rates decreased, "Effective Duration Effect" subtracted 7.1 basis points of

performance versus the index.

"Non-parallel Duration Effect" added 3.3 basis points of performance versus the index. This can be attributed to the portfolio overweights in the 6-month and 5-year parts of the yield curve adding more to performance than underweights in the 1-, 2-, and 3-year areas subtracted.

"Selection Effect" added 2.5 basis points of performance versus the index, as our securities as a whole outperformed index securities.

"Roll Effect" subtracted 2.2 basis points of performance versus the index due to the underweight positions in

the 1- through 3-year

"Income Effect" and "Amortization Effect" offset each other once again due to the portfolio being

underweight in higher coupon securities versus the index. While there was less coupon income than the index, there was also less amortization of price towards par than in the index.

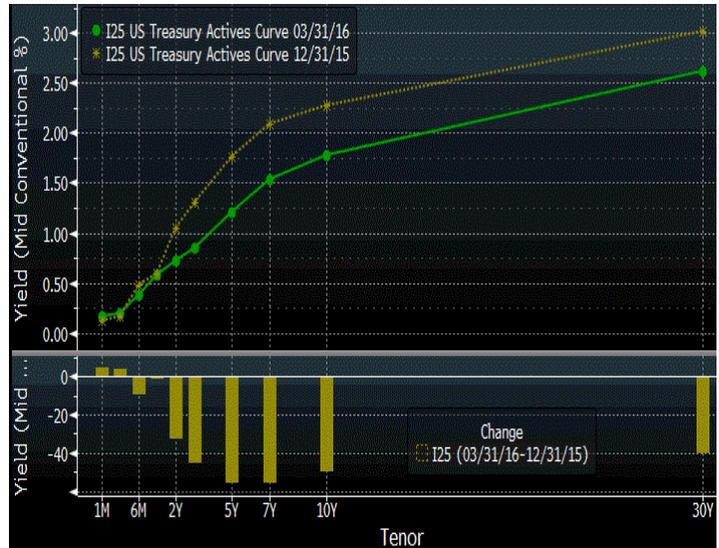


Chart 1: U.S. Treasury Yield Curve 12/31/15 - 3/31/16 (Source: Bloomberg)

## Returns

The City's Total Pooled Investment Fund is split into two portfolios. A Liquidity portfolio, which is short-term in nature and managed on an Earned Income Yield basis, and a Core portfolio, which is longer in maturity (0-5 years) and managed on a total-return basis versus an index (Bank of America Merrill Lynch (BAML) 1-3 Year Treasury Index).

### Earned Income Yield\*

|                                     | Q1 2016 | Q4 2015 | Q3 2015 | FYTD 2016 | 1 Year | 3 Year |
|-------------------------------------|---------|---------|---------|-----------|--------|--------|
| <b>Total Pooled Investment Fund</b> | 0.75%   | 0.75%   | 0.69%   | 0.73%     | 0.69%  | 0.55%  |
| <b>Core Portfolio</b>               | 0.89%   | 0.94%   | 0.88%   | 0.90%     | 0.88%  | 0.70%  |
| <b>Liquidity Portfolio</b>          | 0.50%   | 0.36%   | 0.27%   | 0.39%     | 0.34%  | 0.29%  |

### Total Return—Core Portfolio

|                                       | Q1 2016 | Q4 2015 | Q3 2015 | FYTD 2016 | 1 Year | 3 Year* |
|---------------------------------------|---------|---------|---------|-----------|--------|---------|
| <b>Core Portfolio</b>                 | 0.87%   | (0.33%) | 0.32%   | 0.85%     | 0.99%  | 0.76%   |
| <b>BAML 1 - 3 Year Treasury Index</b> | 0.91%   | (0.44%) | 0.31%   | 0.77%     | 0.92%  | 0.77%   |
| <b>Difference</b>                     | (0.04%) | 0.11%   | 0.01%   | 0.08%     | 0.07%  | (0.01%) |

\*Annualized Returns

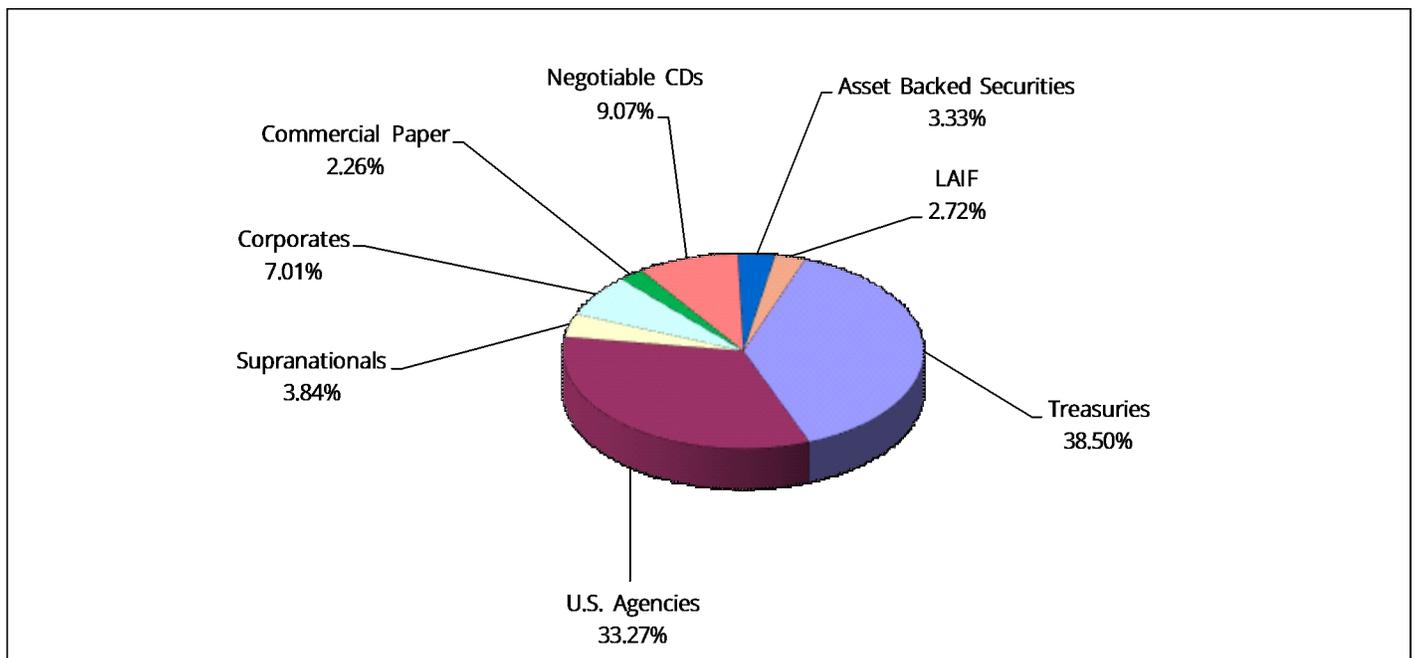
**Portfolio Profile**

as of March 31, 2016

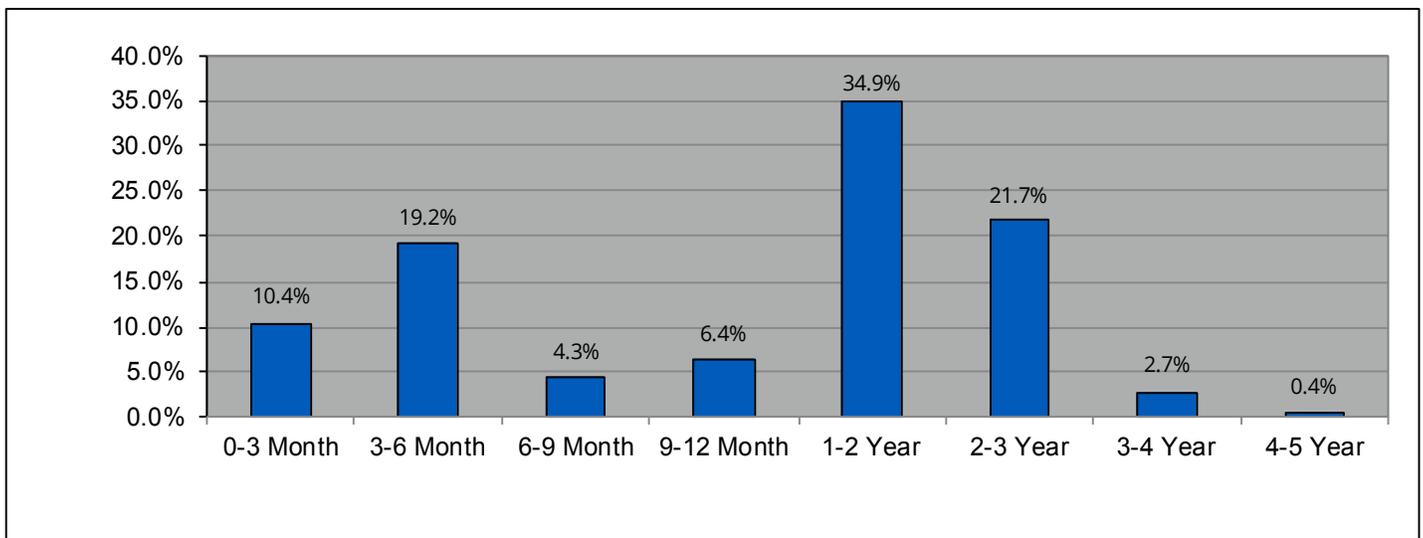
|                                   | <b>Liquidity</b> | <b>Core</b>     |
|-----------------------------------|------------------|-----------------|
| Portfolio Size*                   | \$823,949,279    | \$1,382,286,445 |
| % of total pool                   | 37.35%           | 62.65%          |
| Portfolio Duration**              | 0.313            | 1.680           |
| Index Duration**                  | 0.370            | 1.888           |
| % of index                        | 84.60%           | 88.98%          |
| Weighted Average Days to Maturity | 121.05           | 713.47          |

\* Book Value    \*\* Macaulay's Duration for the Liquidity Portfolio and Effective Duration for the Core Portfolio  
 Note: Portfolio durations do not include the effect of trades settling over month end.

**Asset Allocation**



**Pool Maturity Distribution**



**Credit Profile**

as of March 31, 2016

**Credit Ratings**

| Ratings Buckets     | % of Portfolio |
|---------------------|----------------|
| U.S. Treasury (AAA) | 38.50%         |
| Agencies (AAA)      | 33.27%         |
| AAA/A1              | 19.18%         |
| AA                  | 2.66%          |
| A                   | 3.67%          |
| Below A             | 0.00%          |

- All Commercial Paper is rated A1 or A1+ and is included in the AAA/A1 bucket
- All Negotiable Certificates of Deposit are rated A1 or A1+ and are included in the AAA/A1 bucket
- Repurchase agreements are not included, though they are collateralized at 102% by AAA-rated collateral
- LAIF and money market funds are not included
- Municipal securities not included in above chart as they are rated on a municipal rating scale

**Top Issuer Exposures**

| Issuer                             | % of Portfolio |
|------------------------------------|----------------|
| U.S. Treasury                      | 38.50%         |
| Freddie Mac                        | 10.64%         |
| Fannie Mae                         | 8.83%          |
| Federal Farm Credit Bank           | 7.91%          |
| Federal Home Loan Bank System      | 5.89%          |
| Int'l Bank for Recon & Development | 2.71%          |
| Wells Fargo Bank NA                | 1.90%          |
| Svenska Handelsbanken NY           | 1.13%          |
| Skandinaviska Enskilda Banken NY   | 1.13%          |
| Toronto-Dominion Bank NY           | 1.13%          |
| Bank of Nova Scotia/Houston        | 1.13%          |
| Royal Bank of Canada NY            | 1.13%          |
| Rabobank Nederland NY              | 1.13%          |
| Swedbank NY                        | 1.13%          |
| Inter-American Development Bank    | 1.13%          |
| Toyota Motor Credit Corp.          | 1.13%          |

**Pooled Investment Fund Corporate Issuers**

| Issuer                    | Moody's | S&P  | Egan-Jones | 5yr CDS level | Q/Q % change   | Equity Price   | Q/Q % change | Longest maturity |
|---------------------------|---------|------|------------|---------------|----------------|----------------|--------------|------------------|
| Apple Inc.                | Aa1     | AA+  | AA         | 29.79         | 23.79%         | \$108.99       | 3.54%        | 1,058 days       |
| Bk of Nova Scotia Houston | P-1     | A-1  | A1         | N/A           | N/A            | \$48.86        | 20.82%       | 92 days          |
| Berkshire Hathaway Inc.   | Aa2     | AA   | AA+        | 86.66         | 28.37%         | \$231,450.00   | 7.91%        | 652 days         |
| Cisco Systems Inc.        | A1      | AA-  | AA         | 32.35         | 0.37%          | \$28.47        | 4.82%        | 1,065 days       |
| General Electric Co.      | P-1     | A-1+ | A1+        | 37.50         | -1.51%         | \$31.79        | 2.05%        | 92 days          |
| Home Depot Inc.           | A2      | A    | A+         | 26.39         | N/A            | \$133.43       | 0.89%        | 533 days         |
| IBM Corp.                 | Aa3 (-) | AA-  | AA-        | 54.34         | 24.37%         | \$151.45       | 10.05%       | 679 days         |
| Johnson & Johnson         | Aaa     | AAA  | AA+        | 20.36         | 8.59%          | \$108.20       | 5.33%        | 600 days         |
| Merck & Co. Inc.          | A1      | AA   | A          | 14.50         | -1.96%         | \$52.91        | 0.17%        | 768 days         |
| Microsoft Corp            | Aaa     | AAA  | AA         | 34.67         | 7.54%          | \$55.23        | -0.45%       | 947 days         |
| Oracle Corp.              | A1      | AA-  | A+         | 38.77         | 36.32%         | \$40.91        | 11.99%       | 563 days         |
| PepsiCo Inc.              | A1      | A    | A          | 45.00         | 8.43%          | \$102.48       | 2.56%        | 561 days         |
| Rabobank Nederland NY     | P-1     | A-1  | A1         | 68.32         | 31.95%         | N/A            | N/A          | 92 days          |
| Royal Bank of Canada NY   | P-1     | A-1+ | A1+        | N/A           | N/A            | \$57.56        | 7.43%        | 92 days          |
| SEB NY                    | P-1     | A-1  | N/A        | 70.64         | 2.24%          | \$9.56         | -9.84%       | 92 days          |
| Svenska Handelsbanken NY  | P-1     | A-1+ | N/A        | 67.16         | 37.15%         | \$12.74        | -4.91%       | 92 days          |
| Swedbank NY               | P-1     | A-1+ | N/A        | 72.34         | 27.65%         | \$21.57        | -2.86%       | 106 days         |
| Texas Instruments Inc.    | A1      | A+   | AA-        | 33.18         | -13.35%        | \$57.42        | 4.76%        | 761 days         |
| Toronto-Dominion Bank NY  | P-1     | A-1+ | A1+        | 81.83         | 12.43%         | \$43.13        | 10.11%       | 92 days          |
| Toyota Motor Credit Corp. | P-1     | A-1+ | A1+        | 77.02         | 17.16%         | \$106.32       | -13.59%      | 92 days          |
| US Bancorp                | A1      | A+   | A+         | 49.78         | -25.19%        | \$40.59        | -4.87%       | 669 days         |
| Wal-Mart Stores Inc.      | Aa2     | AA   | A+         | 44.49         | N/A            | \$68.49        | 11.73%       | 741 days         |
| Walt Disney Co.           | A2      | A    | AA-        | 26.77         | 63.83%         | \$99.31        | -5.49%       | 900 days         |
| Wells Fargo & Co.         | A2      | A    | A+         | 61.04         | 15.91%         | \$48.36        | -11.04%      | 662 days         |
| <b>S&amp;P 500 Index</b>  |         |      |            |               |                | <b>2059.74</b> | <b>0.77%</b> |                  |
| <b>CDX IG26 Index</b>     |         |      |            | <b>78.59</b>  | <b>-10.94%</b> |                |              |                  |

CDS level: the 5-year Credit Default Swap of the underlying parent company as of quarter end. Equity Price: stock price of the underlying parent company (if applicable) as of quarter end. (+) or (-) after rating indicates a credit rating that is under review for upgrade or downgrade

## Portfolio Strategy

At the January and March FOMC meetings, the Fed Funds target range was left at 0.25%-0.50%. The accompanying statements were fairly dovish, however, noting global and financial market developments. In the Summary of Economic Projections released after March's meeting, the median expected Fed Funds rate at the end of 2016 was lowered to 0.875%, signaling at most two rate increases this year.

While the pace and number of potential rate hikes has slowed, we are still in the midst of a rising rate regime. As such, we will continue to maintain a short duration position in the Core portfolio versus

the index in anticipation of the interest rate increases. It is currently positioned at about 89% of index duration, and will likely remain there over the next few quarters in an effort to not only outperform the index, but more importantly to mitigate portfolio losses as rates rise.

The rates on overnight investments have increased with the December rate hike, though they remain very low. As such, we will continue to keep overnight cash balances fairly low and manage liquidity through upcoming maturities and by investing out to future known cash outflows such

as payroll and debt service payment dates.

Given that rates are likely to rise over the next several years, we will look to add some additional floating rate exposure to both the Core and Liquidity portfolios. This will allow us to capture higher coupon income more quickly, and will lower the amount of unrealized losses in the portfolios as these types of securities tend to remain near a par price due to the frequent rate resets.

Another upcoming development will be the final implementation of the new money market fund regulations, which is set to occur in October.

As floating Net Asset Values, redemption fees and gates are imposed on prime money funds, we should see a large shift of money from prime to government money market funds. This should help increase the rates we can earn on commercial paper, certificates of deposit, and other investments based off of LIBOR (London Interbank Offered Rate) as less money is invested in the prime funds that purchase these securities. This could provide a nice increase in yield to both the Core and Liquidity portfolios, and we will continue to look at ways to opportunistically increase these holdings while still maintaining safety of principal and liquidity.

## Projected Portfolio Cash Flows\*

The Investment staff have reviewed and the City Treasurer has affirmed that the Pooled Investment Fund has sufficient maturities and liquidity to meet the City's expenditure requirements for the next six months per California Government Code §53646.

| MONTH     | CASH INFLOWS | CASH OUTFLOWS | NET MONTHLY CASHFLOWS | CUMULATIVE NET CASHFLOWS |
|-----------|--------------|---------------|-----------------------|--------------------------|
| April     | 320          | 265           | 55                    | 55                       |
| May       | 410          | 255           | 155                   | 210                      |
| June      | 308          | 182           | 126                   | 336                      |
| July      | 473          | 520           | -47                   | 289                      |
| August    | 259          | 226           | 33                    | 322                      |
| September | 212          | 189           | 23                    | 345                      |

(All dollar amounts in millions)

**Legend:**

Cash Inflows- All revenues, reimbursements, interest receipts and investment maturities.

Cash Outflows- All disbursements to include payroll, pension payroll, accounts payable and wire transfer payments (e.g. water payments, IRS taxes and bond payments).

Cumulative Net Cashflow- All future cumulative net flows available for reinvestment. Since the target duration of the Liquidity Portfolio is approximately .33 years, it will not be unusual for the cumulative net Cashflow figure to equal or closely approximate the size of the Liquidity Portfolio.

## Portfolio Compliance with Investment Policy

The City of San Diego Pooled Investment Fund is in full compliance with the City Treasurer's Investment Policy, which is more restrictive than the current California Government Code. The Investment Policy is reviewed annually by the City's Investment Advisory Committee and accepted by the City Council.

| Category                                | Standard   | Comment                      |
|---|--|------------------------------|
| Duration (Core)                         | BAML 1-3 Year +/-20%   | Complies - 88.98%            |
| Duration (Liquidity)                    | BAML US T-bill 3-6 months +/-40%   | Complies - 84.60%            |
| Maximum Maturity                        | 5 years  | Complies                     |
| Supranationals                          | 30% maximum  | Complies - 3.84%             |
| FNMA                                    | 33.3% maximum  | Complies - 8.83%             |
| FHLMC                                   | 33.3% maximum  | Complies - 10.64%            |
| FHLB                                    | 33.3% maximum  | Complies - 5.89%             |
| FFCB                                    | 33.3% maximum  | Complies - 7.91%             |
| Callable Securities                     | 30% maximum  | Complies - 4.99%             |
| MBS/CMO's                               | 5 yr maximum- 20% max.   | Complies - None in Portfolio |
| Asset-backed                            | 5 yr maximum- 20% max.   | Complies - 3.33%             |
| Commercial Paper                        | A1/P1- 5% per issuer   | Complies                     |
|   | 25% maximum  | Complies - 2.26%             |
| Banker's Acceptances                    | A1/P1- 5% per issuer   | Complies - None in Portfolio |
|   | 40% maximum  | Complies - None in Portfolio |
| Medium Term Notes (includes Bank Notes) | 'A' Rating by at least two agencies  | Complies                     |
|   | 5 year maximum   | Complies                     |
|   | 30% maximum  | Complies - 7.01%             |
| Mutual Funds                            | 20% maximum; 5% maximum per fund   | Complies - None in Portfolio |
| FDIC-insured Certificates of Deposit    | 2% maximum   | Complies - None in Portfolio |
| Certificate and Public Deposits         | 30% maximum  | Complies - 9.07%             |
| Reverse Repos                           | 20% maximum  | Complies - None in Portfolio |
| Futures and Options                     | Prohibited   | Complies - None in Portfolio |
| Custody                                 | Bank trust dept.   | Complies - Citigroup         |
| Exposure per issuer (corporate)         | 5% of total portfolio  | Complies                     |
| Structured Notes                        | 8% maximum/no multiple index structures.   | Complies - None in Portfolio |
| Municipal Securities                    | 'A' Issuer Rating by an NRSRO  | Complies                     |
|   | 20% maximum  | Complies - None in Portfolio |
|   | 5% of total portfolio exposure per Issuer or Insurer, excluding California General Obligations | Complies - None in Portfolio |

## City of San Diego Pooled Investment Fund Holdings as of March 31, 2016

| Security Type            | Issuer                   | Coupon | Maturity      | Par                     | Book                    | Market Value            |
|--------------------------|--------------------------|--------|---------------|-------------------------|-------------------------|-------------------------|
| US Treasury Note         | US Treasury              | 0.75   | 3/15/2017     | \$25,000,000.00         | \$24,898,437.50         | \$25,028,250.00         |
| US Treasury Note         | US Treasury              | 0.5    | 3/31/2017     | \$25,000,000.00         | \$24,968,750.00         | \$24,970,750.00         |
| US Treasury Note         | US Treasury              | 0.875  | 4/15/2017     | \$25,000,000.00         | \$24,970,703.13         | \$25,059,500.00         |
| US Treasury Note         | US Treasury              | 0.875  | 5/15/2017     | \$25,000,000.00         | \$25,072,265.63         | \$25,059,500.00         |
| US Treasury Note         | US Treasury              | 0.625  | 5/31/2017     | \$25,000,000.00         | \$25,005,859.38         | \$24,985,250.00         |
| US Treasury Note         | US Treasury              | 0.875  | 6/15/2017     | \$25,000,000.00         | \$24,981,445.31         | \$25,061,500.00         |
| US Treasury Note         | US Treasury              | 0.625  | 6/30/2017     | \$25,000,000.00         | \$24,989,257.81         | \$24,983,500.00         |
| US Treasury Note         | US Treasury              | 0.875  | 7/15/2017     | \$25,000,000.00         | \$24,892,578.13         | \$25,060,500.00         |
| US Treasury Note         | US Treasury              | 0.625  | 7/31/2017     | \$25,000,000.00         | \$24,947,265.63         | \$24,978,500.00         |
| US Treasury Note         | US Treasury              | 0.625  | 8/31/2017     | \$25,000,000.00         | \$24,974,609.38         | \$24,980,500.00         |
| US Treasury Note         | US Treasury              | 1      | 9/15/2017     | \$25,000,000.00         | \$24,956,054.69         | \$25,107,500.00         |
| US Treasury Note         | US Treasury              | 0.625  | 9/30/2017     | \$25,000,000.00         | \$24,984,375.00         | \$24,967,750.00         |
| US Treasury Note         | US Treasury              | 0.875  | 10/15/2017    | \$25,000,000.00         | \$24,964,843.75         | \$25,060,500.00         |
| US Treasury Note         | US Treasury              | 0.75   | 10/31/2017    | \$25,000,000.00         | \$24,985,354.01         | \$25,008,750.00         |
| US Treasury Note         | US Treasury              | 0.875  | 11/15/2017    | \$25,000,000.00         | \$24,984,375.00         | \$25,062,500.00         |
| US Treasury Note         | US Treasury              | 0.875  | 11/30/2017    | \$25,000,000.00         | \$24,976,562.50         | \$25,061,500.00         |
| US Treasury Note         | US Treasury              | 1      | 12/15/2017    | \$25,000,000.00         | \$24,896,484.38         | \$25,111,250.00         |
| US Treasury Note         | US Treasury              | 1      | 12/31/2017    | \$25,000,000.00         | \$24,952,148.44         | \$25,120,250.00         |
| US Treasury Note         | US Treasury              | 0.875  | 1/15/2018     | \$25,000,000.00         | \$25,075,195.31         | \$25,063,500.00         |
| US Treasury Note         | US Treasury              | 0.75   | 1/31/2018     | \$25,000,000.00         | \$24,985,866.67         | \$25,008,750.00         |
| US Treasury Note         | US Treasury              | 1      | 2/15/2018     | \$25,000,000.00         | \$24,982,421.88         | \$25,118,250.00         |
| US Treasury Note         | US Treasury              | 0.75   | 2/28/2018     | \$25,000,000.00         | \$24,974,142.32         | \$25,005,750.00         |
| US Treasury Note         | US Treasury              | 1      | 3/15/2018     | \$25,000,000.00         | \$25,073,242.19         | \$25,122,000.00         |
| US Treasury Note         | US Treasury              | 0.875  | 3/31/2018     | \$25,000,000.00         | \$25,041,015.63         | \$25,066,500.00         |
| US Treasury Note         | US Treasury              | 1      | 5/15/2018     | \$25,000,000.00         | \$25,046,875.00         | \$25,117,250.00         |
| US Treasury Note         | US Treasury              | 1.125  | 6/15/2018     | \$25,000,000.00         | \$25,091,796.88         | \$25,187,500.00         |
| US Treasury Note         | US Treasury              | 0.875  | 7/15/2018     | \$25,000,000.00         | \$24,861,328.13         | \$25,046,000.00         |
| US Treasury Note         | US Treasury              | 1      | 8/15/2018     | \$25,000,000.00         | \$24,994,140.63         | \$25,116,250.00         |
| US Treasury Note         | US Treasury              | 1      | 9/15/2018     | \$25,000,000.00         | \$25,062,500.00         | \$25,119,250.00         |
| US Treasury Note         | US Treasury              | 0.875  | 10/15/2018    | \$25,000,000.00         | \$24,898,613.60         | \$25,039,000.00         |
| US Treasury Note         | US Treasury              | 1.25   | 11/15/2018    | \$25,000,000.00         | \$25,010,302.20         | \$25,269,500.00         |
| US Treasury Note         | US Treasury              | 1.25   | 12/15/2018    | \$25,000,000.00         | \$24,943,967.73         | \$25,283,250.00         |
| US Treasury Note         | US Treasury              | 1.125  | 1/15/2019     | \$25,000,000.00         | \$25,119,580.61         | \$25,195,250.00         |
| US Treasury Note         | US Treasury              | 1      | 3/15/2019     | \$25,000,000.00         | \$24,888,671.88         | \$25,097,750.00         |
| <b>US Treasury Total</b> |                          |        | <b>38.50%</b> | <b>\$850,000,000.00</b> | <b>\$849,451,030.33</b> | <b>\$852,523,500.00</b> |
| Agency Discount Note     | Fannie Mae               | 0.3    | 4/8/2016      | \$25,000,000.00         | \$24,955,625.00         | \$24,999,000.00         |
| Agency Discount Note     | Federal Farm Credit Bank | 0.32   | 5/4/2016      | \$25,000,000.00         | \$24,951,777.78         | \$24,994,000.00         |
| Agency Note              | Freddie Mac              | 0.5    | 5/13/2016     | \$20,000,000.00         | \$19,999,812.21         | \$20,003,400.00         |
| Agency Note              | Federal Home Loan Bank   | 0.25   | 5/18/2016     | \$25,000,000.00         | \$24,981,450.00         | \$25,001,250.00         |
| Agency Discount Note     | Fannie Mae               | 0.24   | 6/3/2016      | \$15,000,000.00         | \$14,977,400.00         | \$14,991,900.00         |
| Agency Note              | Federal Home Loan Bank   | 0.4    | 6/17/2016     | \$25,000,000.00         | \$25,000,000.00         | \$24,999,250.00         |
| Agency Discount Note     | Federal Farm Credit Bank | 0.6    | 6/20/2016     | \$25,000,000.00         | \$24,924,583.33         | \$24,982,750.00         |
| Agency Note              | Federal Home Loan Bank   | 0.43   | 7/1/2016      | \$25,000,000.00         | \$24,998,660.98         | \$25,009,000.00         |
| Agency Discount Note     | Fannie Mae               | 0.26   | 7/1/2016      | \$25,000,000.00         | \$24,953,958.33         | \$24,977,250.00         |
| Agency Discount Note     | Federal Home Loan Bank   | 0.56   | 7/15/2016     | \$25,000,000.00         | \$24,929,222.22         | \$24,973,750.00         |
| Agency Discount Note     | Freddie Mac              | 0.5    | 7/29/2016     | \$25,000,000.00         | \$24,931,250.00         | \$24,970,250.00         |
| Agency Discount Note     | Federal Farm Credit Bank | 0.34   | 8/12/2016     | \$25,000,000.00         | \$24,931,291.67         | \$24,963,000.00         |
| Agency Note              | Fannie Mae               | 0.625  | 8/26/2016     | \$25,000,000.00         | \$24,987,120.37         | \$25,016,250.00         |
| Agency Discount Note     | Fannie Mae               | 0.44   | 9/9/2016      | \$25,000,000.00         | \$24,939,805.56         | \$24,953,000.00         |

## City of San Diego Pooled Investment Fund Holdings as of March 31, 2016 (cont.)

| Security Type              | Issuer                            | Coupon  | Maturity      | Par                     | Book                    | Market Value            |
|----------------------------|-----------------------------------|---------|---------------|-------------------------|-------------------------|-------------------------|
| Agency Discount Note       | Freddie Mac                       | 0.49    | 9/23/2016     | \$25,000,000.00         | \$24,932,965.28         | \$24,949,000.00         |
| Agency Note                | Federal Farm Credit Bank          | 0.5426  | 11/4/2016     | \$25,000,000.00         | \$25,000,000.00         | \$25,010,750.00         |
| Agency Discount Note       | Federal Farm Credit Bank          | 0.63    | 11/18/2016    | \$25,000,000.00         | \$24,889,750.00         | \$24,924,500.00         |
| Agency Note                | Federal Home Loan Bank            | 0.55    | 11/25/2016    | \$20,000,000.00         | \$20,000,000.00         | \$20,003,800.00         |
| Agency Note                | Freddie Mac                       | 0.5     | 1/27/2017     | \$25,000,000.00         | \$24,962,488.89         | \$24,972,250.00         |
| Agency Discount Note       | Federal Farm Credit Bank          | 0.67    | 2/7/2017      | \$25,000,000.00         | \$24,843,201.39         | \$24,887,250.00         |
| Agency Note                | Freddie Mac                       | 0.875   | 2/22/2017     | \$25,000,000.00         | \$25,048,976.39         | \$25,048,750.00         |
| Agency Note                | Federal Farm Credit Bank          | 0.8     | 6/16/2017     | \$15,000,000.00         | \$14,995,950.00         | \$15,009,900.00         |
| Agency Note                | Freddie Mac                       | 0.75    | 7/14/2017     | \$25,000,000.00         | \$24,980,500.00         | \$25,009,000.00         |
| Agency Note                | Freddie Mac                       | 1       | 12/15/2017    | \$25,000,000.00         | \$24,974,250.00         | \$25,098,000.00         |
| Agency Note                | Federal Farm Credit Bank          | 1.125   | 12/18/2017    | \$10,000,000.00         | \$9,991,970.00          | \$10,059,000.00         |
| Agency Note                | Freddie Mac                       | 1.125   | 12/18/2017    | \$10,000,000.00         | \$10,000,000.00         | \$10,000,000.00         |
| Agency Note                | Fannie Mae                        | 1       | 12/28/2017    | \$10,000,000.00         | \$10,000,000.00         | \$10,002,300.00         |
| Agency Note                | Freddie Mac                       | 1.1     | 2/26/2018     | \$10,000,000.00         | \$10,000,000.00         | \$10,001,400.00         |
| Agency Note                | Fannie Mae                        | 0.875   | 3/28/2018     | \$25,000,000.00         | \$24,950,000.00         | \$25,042,500.00         |
| Agency Note                | Freddie Mac                       | 1.25    | 5/25/2018     | \$10,000,000.00         | \$9,992,000.00          | \$10,000,400.00         |
| Agency Note                | Fannie Mae                        | 1.45    | 11/23/2018    | \$10,000,000.00         | \$10,000,000.00         | \$10,000,000.00         |
| Agency Note                | Fannie Mae                        | 1.375   | 1/28/2019     | \$25,000,000.00         | \$24,984,500.00         | \$25,325,750.00         |
| Agency Note                | Federal Home Loan Bank            | 1.6     | 1/29/2019     | \$10,000,000.00         | \$10,000,000.00         | \$10,006,000.00         |
| Agency Note                | Fannie Mae                        | 1.3     | 2/26/2019     | \$10,000,000.00         | \$10,000,000.00         | \$10,000,000.00         |
| Agency Note                | Freddie Mac                       | 1.5     | 3/29/2019     | \$10,000,000.00         | \$10,000,000.00         | \$10,014,700.00         |
| Agency Note                | Freddie Mac                       | 1.125   | 4/15/2019     | \$25,000,000.00         | \$24,991,750.00         | \$25,098,250.00         |
| <b>Agency Total</b>        |                                   |         | <b>33.27%</b> | <b>\$735,000,000.00</b> | <b>\$734,000,259.40</b> | <b>\$735,297,550.00</b> |
| Supranational              | Inter-American Development Bank   | 1.125   | 8/28/2018     | \$25,000,000.00         | \$24,972,000.00         | \$25,055,250.00         |
| Supranational              | Intl Bank Recon & Develop         | 1       | 10/5/2018     | \$25,000,000.00         | \$24,957,500.00         | \$25,079,250.00         |
| Supranational              | Intl Bank Recon & Develop         | 1.35    | 2/26/2019     | \$10,000,000.00         | \$10,000,000.00         | \$10,002,400.00         |
| Supranational              | Intl Bank Recon & Develop         | 1.25    | 7/26/2019     | \$25,000,000.00         | \$24,879,250.00         | \$25,060,750.00         |
| <b>Supranational Total</b> |                                   |         | <b>3.84%</b>  | <b>\$85,000,000.00</b>  | <b>\$84,808,750.00</b>  | <b>\$85,197,650.00</b>  |
| LAIF                       | California State Pool             | 0.37    | 4/1/2016      | \$60,004,171.85         | \$60,004,171.85         | \$60,004,171.85         |
| Commercial Paper           | Toyota Motor Credit Corp.         | 0.57    | 7/1/2016      | \$25,000,000.00         | \$24,902,625.00         | \$24,969,666.67         |
| Commercial Paper           | General Electric Capital Tsy Svcs | 0.76    | 7/1/2016      | \$25,000,000.00         | \$24,902,361.11         | \$24,969,666.67         |
| Negotiable CD              | SEB NY                            | 0.54    | 7/1/2016      | \$25,000,000.00         | \$25,000,000.00         | \$25,006,941.03         |
| Negotiable CD              | Toronto-Dominion Bank NY          | 0.6     | 7/1/2016      | \$25,000,000.00         | \$25,000,000.00         | \$25,010,761.83         |
| Negotiable CD              | Bank of Nova Scotia/Houston       | 0.54    | 7/1/2016      | \$25,000,000.00         | \$25,000,000.00         | \$25,006,962.44         |
| Negotiable CD              | Svenska Handelsbanken NY          | 0.59    | 7/1/2016      | \$25,000,000.00         | \$25,000,781.85         | \$25,010,150.74         |
| Negotiable CD              | Royal Bank of Canada NY           | 0.815   | 7/1/2016      | \$25,000,000.00         | \$25,000,000.00         | \$25,024,504.99         |
| Negotiable CD              | Rabobank Nederland NY             | 0.78    | 7/1/2016      | \$25,000,000.00         | \$25,000,000.00         | \$25,022,276.51         |
| Negotiable CD              | Swedbank NY                       | 0.75    | 7/15/2016     | \$25,000,000.00         | \$25,000,000.00         | \$25,023,474.40         |
| Negotiable CD              | Wells Fargo Bank NA               | 0.87    | 10/7/2016     | \$25,000,000.00         | \$25,000,000.00         | \$25,000,000.00         |
| <b>MMKT, Repo, CP, CD</b>  |                                   |         | <b>14.04%</b> | <b>\$310,004,171.85</b> | <b>\$309,809,939.81</b> | <b>\$310,048,577.13</b> |
| Medium Term Note           | Wells Fargo Bank NA               | 0.7831  | 6/2/2016      | \$10,000,000.00         | \$10,000,000.00         | \$10,002,900.00         |
| Medium Term Note           | US Bancorp                        | 0.8481  | 1/30/2017     | \$15,000,000.00         | \$15,000,000.00         | \$15,006,600.00         |
| Medium Term Note           | Apple Inc.                        | 0.9     | 5/12/2017     | \$5,000,000.00          | \$4,996,550.00          | \$5,007,750.00          |
| Medium Term Note           | PepsiCo Inc.                      | 0.8696  | 7/17/2017     | \$10,000,000.00         | \$10,000,000.00         | \$10,011,500.00         |
| Medium Term Note           | Home Depot Inc..                  | 1.00385 | 9/15/2017     | \$5,000,000.00          | \$5,000,000.00          | \$5,017,500.00          |
| Medium Term Note           | PepsiCo Inc.                      | 1       | 10/13/2017    | \$5,000,000.00          | \$4,989,450.00          | \$5,009,400.00          |
| Medium Term Note           | Oracle Corp.                      | 1.2     | 10/15/2017    | \$10,000,000.00         | \$9,962,500.00          | \$10,058,400.00         |

## City of San Diego Pooled Investment Fund Holdings as of March 31, 2016 (cont.)

| Security Type             | Issuer                           | Coupon | Maturity       | Par                       | Book                      | Market Value              |
|---------------------------|----------------------------------|--------|----------------|---------------------------|---------------------------|---------------------------|
| Medium Term Note          | Johnson & Johnson                | 1.125  | 11/21/2017     | \$5,000,000.00            | \$4,996,050.00            | \$5,028,350.00            |
| Medium Term Note          | Berkshire Hathaway Inc.          | 0.9211 | 1/12/2018      | \$7,000,000.00            | \$7,000,000.00            | \$6,999,650.00            |
| Medium Term Note          | Wells Fargo Bank NA              | 1.3581 | 1/22/2018      | \$7,000,000.00            | \$7,000,000.00            | \$7,020,720.00            |
| Medium Term Note          | US Bancorp                       | 1.1981 | 1/29/2018      | \$5,000,000.00            | \$5,000,000.00            | \$5,000,700.00            |
| Medium Term Note          | IBM Corp.                        | 1.25   | 2/8/2018       | \$5,000,000.00            | \$4,977,100.00            | \$5,025,100.00            |
| Medium Term Note          | Cisco Systems Inc.               | 1.2356 | 2/21/2018      | \$5,000,000.00            | \$5,000,000.00            | \$5,013,100.00            |
| Medium Term Note          | Wal-Mart Stores                  | 1.125  | 4/11/2018      | \$10,000,000.00           | \$9,964,290.00            | \$10,075,200.00           |
| Medium Term Note          | Texas Instruments Inc.           | 1      | 5/1/2018       | \$5,000,000.00            | \$4,953,500.00            | \$4,997,400.00            |
| Medium Term Note          | Apple Inc.                       | 1      | 5/3/2018       | \$10,000,000.00           | \$9,825,200.00            | \$10,020,600.00           |
| Medium Term Note          | Merck & Co. Inc.                 | 1.3    | 5/18/2018      | \$5,000,000.00            | \$4,988,450.00            | \$5,040,750.00            |
| Medium Term Note          | Cisco Systems Inc.               | 1.65   | 6/15/2018      | \$5,000,000.00            | \$4,999,150.00            | \$5,070,450.00            |
| Medium Term Note          | The Walt Disney Co.              | 1.5    | 9/17/2018      | \$6,000,000.00            | \$5,994,900.00            | \$6,082,260.00            |
| Medium Term Note          | Microsoft Corp.                  | 1.3    | 11/3/2018      | \$10,000,000.00           | \$9,990,000.00            | \$10,097,200.00           |
| Medium Term Note          | Apple Inc.                       | 1.4382 | 2/22/2019      | \$5,000,000.00            | \$5,000,000.00            | \$5,044,350.00            |
| Medium Term Note          | Cisco Systems Inc.               | 1.1351 | 3/1/2019       | \$5,000,000.00            | \$5,000,000.00            | \$4,998,400.00            |
| <b>MTN Total</b>          |                                  |        | <b>7.01%</b>   | <b>\$155,000,000.00</b>   | <b>\$154,637,140.00</b>   | <b>\$155,628,280.00</b>   |
| Asset Backed Security     | Toyota Auto Rec Owners Trust     | 0.51   | 2/15/2017      | \$303,929.07              | \$303,623.57              | \$303,874.36              |
| Asset Backed Security     | BMW Vehicle Owner Trust          | 0.53   | 4/25/2017      | \$131,127.67              | \$130,958.67              | \$131,080.46              |
| Asset Backed Security     | Honda Auto Receivables Trust     | 0.7    | 6/15/2017      | \$2,380,041.32            | \$2,379,780.32            | \$2,379,374.91            |
| Asset Backed Security     | Toyota Auto Rec Owners Trust     | 0.71   | 7/17/2017      | \$2,700,148.15            | \$2,700,100.65            | \$2,698,960.08            |
| Asset Backed Security     | Honda Auto Receivables Trust     | 0.69   | 8/21/2017      | \$10,949,048.22           | \$10,948,209.62           | \$10,940,179.49           |
| Asset Backed Security     | Toyota Auto Rec Owners Trust     | 0.77   | 11/15/2017     | \$5,478,682.91            | \$5,478,244.81            | \$5,475,669.63            |
| Asset Backed Security     | Harley-Davidson Motorcycle Trust | 0.49   | 4/15/2018      | \$428,278.21              | \$427,939.71              | \$428,089.77              |
| Asset Backed Security     | Nissan Auto Rec Owners Trust     | 0.83   | 7/16/2018      | \$12,915,114.09           | \$12,914,102.94           | \$12,904,782.00           |
| Asset Backed Security     | Toyota Auto Rec Owners Trust     | 1.03   | 7/16/2018      | \$4,750,000.00            | \$4,749,631.88            | \$4,750,760.00            |
| Asset Backed Security     | Nissan Auto Rec Owners Trust     | 0.87   | 11/15/2018     | \$10,000,000.00           | \$9,999,237.00            | \$9,985,600.00            |
| Asset Backed Security     | Chase Issuance Trust             | 1.15   | 1/15/2019      | \$5,000,000.00            | \$4,999,095.50            | \$5,008,550.00            |
| Asset Backed Security     | Chase Issuance Trust             | 0.6862 | 4/15/2019      | \$10,000,000.00           | \$10,000,000.00           | \$9,989,600.00            |
| Asset Backed Security     | Chase Issuance Trust             | 1.62   | 7/15/2020      | \$8,500,000.00            | \$8,497,679.50            | \$8,569,530.00            |
| <b>Asset Backed Total</b> |                                  |        | <b>3.33%</b>   | <b>\$73,536,369.64</b>    | <b>\$73,528,604.17</b>    | <b>\$73,566,050.70</b>    |
| <b>Grand Total</b>        |                                  |        | <b>100.00%</b> | <b>\$2,208,540,541.49</b> | <b>\$2,206,235,723.71</b> | <b>\$2,212,261,607.83</b> |

**Market Values are determined by using Sungard pricing as the primary source. CMS Bondedge, Bloomberg, Custody Bank (Citibank) and pricing provided by broker/dealers are all used to reconcile and determine correct prices.**

### (continued from page 2)

The possibility of negative rates for retail deposits is actually pretty remote. Congress would surely rail against large banks charging people to hold deposits. However, larger institutional depositors would certainly be affected, and it would be these entities who could begin holding cash if the

costs to do so (storage, security, etc.) became less than the amount they would lose with negative rates.

So far, there have been no major financial calamities in the regions with negative rates. However, as mentioned earlier, they have not been a panacea to the ongoing economic

malaise. Despite the lack of effect, some central banks have continued taking rates more negative. It is reminiscent of medieval medicine, where the presumed cure to any illness was a good bleeding. If that didn't work, the answer was more bleeding! Looking back, it is quite laughable, but at the time it was the

prescribed fix. It seems future generations will look back at this grand economic experiment and have a good laugh as well.

*-Tom Williams, Investment Officer*