

# KEN BURKE

CLERK OF THE CIRCUIT COURT -PINELLAS COUNTY, FLORIDA

## FINANCE DIVISION

Clerk of the County Court  
Recorder of Deeds  
Clerk and Accountant of the Board of County Commissioners  
Custodian of County Funds  
County Auditor  
Clerk of the Water and Navigation Control Authority

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TO: The Honorable Chairman and Members  
of the Board of County Commissioners

THRU: *KB* Ken Burke, CPA  
Clerk of the Circuit Court and Comptroller

FROM: *CHH* Claretha N. Harris, CPA  
Chief Deputy Director, Finance Division

DISTR: Jewel White, County Attorney  
Mark S. Woodard, County Administrator  
Board Records

SUBJECT: Quarterly Investment Report for the Period Ended December 31, 2017

DATE: January 31, 2018

Attached is the Quarterly Investment Report for the period ended December 31, 2017.

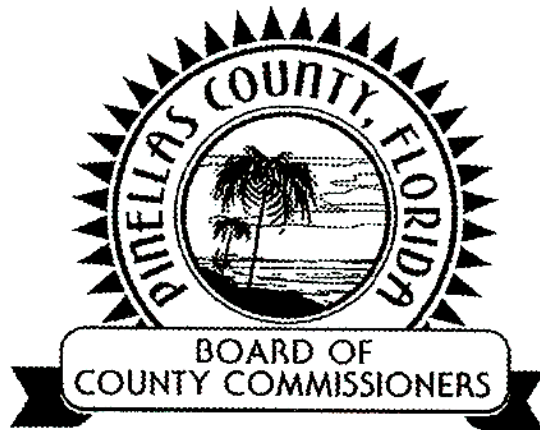
The following is a summary of key points identified in the attached Quarterly Investment Report:

✓ Total Portfolio - book value (at quarter end)	\$1,171,300,226
✓ Securities - book value (at quarter end)	\$727,187,192
✓ Securities weighted average maturity (WAM) (at quarter end)	1.18 years
✓ Realized investment income for three months	\$2,828,168
✓ Yield on short-term portfolio	
○ Quarterly composite yield	1.22%*
○ Benchmark (3-month T-Bill)	1.23%
✓ Yield on long-term portfolio	
○ Quarterly composite yield	1.19%**
○ Benchmark (2-year T-Bill) – 3 month average	1.70%

\* The report reflects the three month Treasury exceeding the actual short term portfolio yield by a single basis point. This is primarily due to a rising rate environment and an investment tied to the 3-month LIBOR where the rate resets on a quarterly basis.

\*\*As expected, in a rising rate environment coupled with Pinellas County's buy and hold strategy, this report reflects the two year Treasury exceeding the actual long term portfolio yield.

Thank you, in advance, for your attention to the attached Quarterly Investment Report. If you have any questions, please contact me at 727-464-8300.



***QUARTERLY***  
***INVESTMENT REPORT***

***For the Period Ended***  
***December 31, 2017***

## Investment Policy

Section 218.415, Florida Statutes authorizes the governing body of a local government to adopt a written investment plan to govern investment activity. The Board of County Commissioners (Board) adopted Section 2-144 of the Pinellas County Code, Investment of Surplus Public Funds, establishing policies for investing all County surplus funds controlled by the Board. All investment activity is conducted in accordance with Code Section 2-144 and additional written policies and procedures.

The Pinellas County Board of County Commissioners' investment policy and the ordinance can be found at <https://www.pinellasclerk.org/aspInclude2/ASPInclude.asp?pageName=investmentreports.htm>

In accordance with the above laws and policies, the Clerk is required to submit a report on the performance of the County's investment portfolio quarterly and annually. In this Quarterly Investment Report, we show portfolio activity and performance, key economic indicators, portfolio summary and detail information and demonstrate compliance with policies.

## Portfolio Activity Summary

The portfolio's book value went from \$950,735,097 at September 30, 2017 to \$1,171,300,226 at December 31, 2017, an increase of \$220,565,129 due to the annual influx of ad valorem taxes. The County's allocation in securities increased \$133,741,834. The long-term portfolio's quarterly composite yield increased to 1.19% as of December 31, 2017 compared to 1.10% as of September 30, 2017. Due to the current interest rate environment, securities are being purchased primarily in the 2-year range. Portfolio activity for the quarter is shown on pages 5 & 6 of this report. The long-term portfolio's weighted average maturity as of December 31, 2017 and September 30, 2017 was 1.18 years and 0.93 years, respectively.

## Portfolio Performance

Total realized investment income for the quarter ended December 31, 2017 was \$2,828,168; up \$139,111 from the prior quarter. As expected in a rising rate environment coupled with Pinellas County's buy and hold strategy, this report reflects the two year Treasury exceeding the actual long term portfolio composite yield. The short-term portfolio's composite annual yield was one basis point below its benchmark primarily due to a rising rate environment and an investment tied to the 3-month LIBOR where the rate resets on a quarterly basis. The County has its short term funds placed in public funds depository accounts, secured by Chapter 280, Florida Statutes, and Local Government Investment pools.

Quarter-End Yields Over The Last Year					
<u>Individual Yields</u> (3 month daily average)	<u>12/16</u>	<u>3/17</u>	<u>6/17</u>	<u>09/17</u>	<u>12/17</u>
<u>Short Term Portfolio:</u>					
Cash Pools	0.57 %	0.72 %	0.92 %	1.10 %	1.18 %
Local Government Investment Pools	0.76	0.91	1.06	1.19	1.27
<u>Composite Yields</u> (3 month daily average)					
Short Term Portfolio	0.61	0.76	0.96	1.13	1.22
Long Term Portfolio	0.97	1.06	1.07	1.10	1.19
Portfolio Overall	0.85	0.96	1.03	1.11	1.20
<u>Benchmarks</u>					
<u>Short Term Funds:</u>					
3-month US Treasury constant maturity (3-month average)	0.43	0.60	0.90	1.06	1.23
<u>Long Term Funds:</u>					
2-year US Treasury constant maturity (3-month average)	1.01	1.24	1.29	1.36	1.70

**Treasury Yields**

In comparison to the prior year, the treasury yields on all maturities rose. The increases were between 27 and 91 basis points. As compared to last quarter, all maturities rose between 28 and 45 basis points. The historical Treasury yields at quarter-end for the last five quarters are presented below.

<i>Historical U.S. Treasury Yields over the Last Year</i>					
<u>Maturity</u>	<u>12/31/16</u>	<u>3/31/17</u>	<u>6/30/17</u>	<u>09/30/17</u>	<u>12/31/17</u>
3 Month	0.51 %	0.76 %	1.03 %	1.06 %	1.39 %
6 Month	0.62	0.91	1.14	1.20	1.53
1 Year	0.85	1.03	1.24	1.31	1.76
2 Year	1.20	1.27	1.38	1.47	1.89
3 Year	1.47	1.50	1.55	1.62	1.98
5 Year	1.93	1.93	1.89	1.92	2.20

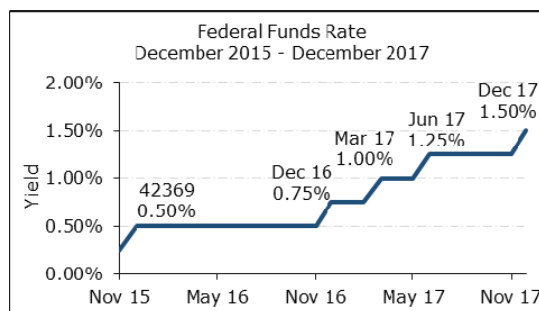
The **composition** of the portfolio is diversified to control the risk of loss resulting from the over concentration of assets in a specific maturity, issuer, instrument, dealer or bank through which investments are bought and sold. Diversification strategies are reviewed and revised periodically as necessary to meet portfolio objectives.

The **maximum allowable maturity** for any investment in the portfolio is five years; however we make every effort to match investment maturities with known cash needs and anticipated cash flow requirements. Funds needed to meet current operating requirements have shorter maturities, generally less than twelve (12) months. Bond construction funds, bond fund reserves and other non-operating funds have terms appropriate to the need for funds and, if applicable, in accordance with debt covenants.

As shown on page 9, our portfolio is in **compliance** with all limitations on authorized investments shown in the Pinellas County Board of County Commissioners’ investment policy.

**Key Economic Indicators**

*Federal Funds Rate* - The Federal Open Market Committee (FOMC) met in November and mid-December. On December 13<sup>th</sup>, the federal funds target rate was increased to a range of 1 ¼ to 1 ½ percent.



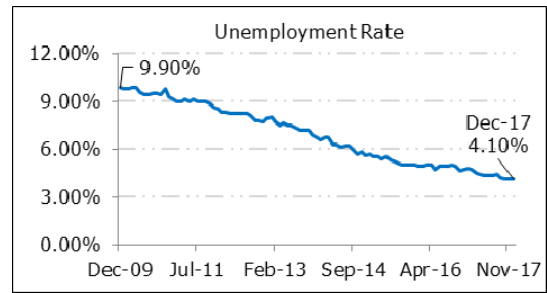
Source: Bloomberg

The Federal Reserve press release from the December FOMC meeting indicated “Information received since the Federal Open Market Committee met in November indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Averaging through hurricane-related fluctuations, job gains have been solid, and the unemployment rate declined further”. The FOMC also noted that “Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters”.

“On a 12-month basis, both overall inflation and inflation for items other than food and energy have declined this year and are running below 2 percent” the Fed said. “Hurricane-related disruptions and rebuilding have affected economic activity, employment, and inflation in recent months but have not materially altered the outlook for the national economy.”

The latest quarterly forecast released by the FOMC continues to include three additional quarter-point increases in the target rate next year as well as pick up in GDP from 2.1 percent to 2.5 percent. Fed funds futures are now pricing a high probability for the next rate hike to occur at the March 2018 FOMC meeting.

*Unemployment Rate* – Bureau of Labor Statistics has indicated that the unemployment rate decreased from 4.2% in September 2017 to 4.1% in December 2017. Initial jobless claims (seasonally adjusted) decreased from 258,000 for the week ending September 30, 2017 to 250,000 for the week ending December 30, 2017. The labor markets ended the year on a high note, while in the process adding more than 2 million jobs in 2017. Anticipated tail-winds from the Tax Cuts and Job Act (TCJA) and new found synchronized global growth have many economists optimistic that the labor market will continue to tighten in 2018.



Source: Bloomberg

*Consumer Confidence* - The Conference Board’s Consumer Confidence Index as of December 2017 was 122.1, an increase of 1.5 points since September 2017. “Consumer confidence retreated in December after reaching a 17-year high in November”, said Lynn Franco, Director of Economic Indicators at The Conference Board. “The decline in confidence was fueled by a somewhat less optimistic outlook for business and job prospects in the coming months. Consumers’ assessment of current conditions, however, improved moderately. Despite the decline in confidence, consumers’ expectations remain at historically strong levels, suggesting economic growth will continue well into 2018.”

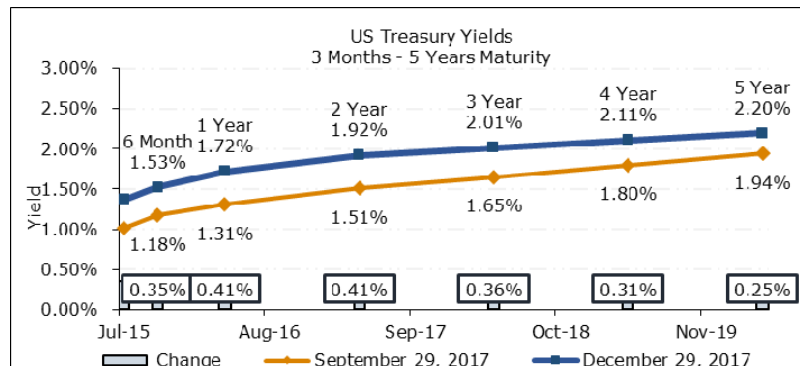
*Consumer Price Index (CPI)* – The core consumer-price index, which excludes food and energy, rose 0.3 percent in December from the previous month, topping estimates and was the highest result in almost a year. Inflation is slowly trending towards the Fed’s target range.

Bloomberg news reported “The upside surprise in the CPI report was mainly attributable to a few components in the goods sector, namely medical goods and vehicle pricing. Service inflation continues to be dominated by a tight housing market. Barring a dramatic weakening of the dollar, the 2018 inflation outlook is looking very similar to 2017.”

Continued tightness in the labor market is starting to produce anecdotal evidence that companies are having difficulty in filling positions and retaining valued employees. If this continues, wage inflation may force the Fed carefully reconsider its stated path for the federal funds target rate in 2018 and beyond.

**Investment Strategy**

Expectations for synchronized global growth have paved the way for central banks to continue the normalization of monetary policy. Market based metrics are currently projecting two to three rate hikes from the FOMC in 2018. As a result, yields on the front end of the curve are hovering near 10-year highs. We have been capitalizing on the higher rates, while recognizing the market may be still underpricing the number of rate hikes forthcoming in 2018. As such, we remain biased in keeping our targeted duration short of our targeted benchmarks. While we opportunistically add agency bonds to the investment portfolio, opportunities have dwindled as spreads have tightened significantly. With spreads running at historically tight levels, the risks appear asymmetric to the downside.

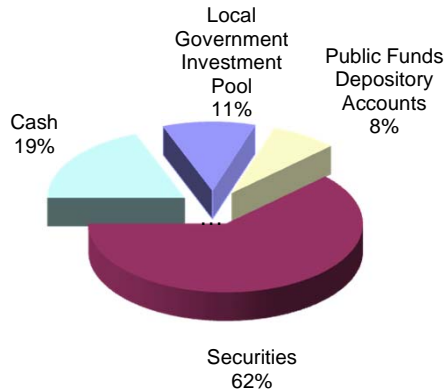


Source: Bloomberg

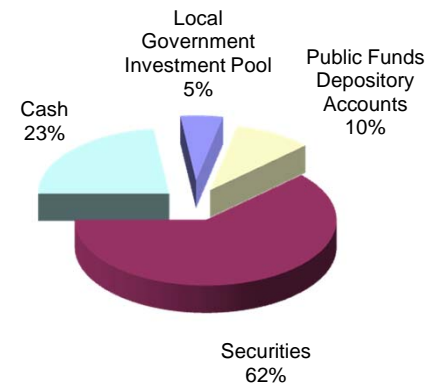
**Pinellas County Board of County Commissioners  
Portfolio Summary**

Investments	----- December 31, 2017 -----				----- December 31, 2016 -----	
	Par Value	Market Value	Book Value	% of Portfolio	Book Value	% of Portfolio
Treasury Note	\$ 20,000,000	\$ 19,900,000	\$ 20,052,171	1.71 %	\$ 100,532,955	8.71 %
Federal Agency Issues	706,395,000	704,677,823	707,135,021	60.38	614,849,033	53.26
Public Funds Depository Accounts	92,683,256	92,683,256	92,683,256	7.91	111,932,648	9.70
Local Government Investment Pools	126,723,160	126,723,160	126,723,160	10.82	60,566,775	5.25
Cash Pools	224,706,618	224,706,618	224,706,618	19.18	266,364,243	23.08
<b>Total Cash and Investments</b>	<b>\$ 1,170,508,034</b>	<b>\$ 1,168,690,857</b>	<b>\$ 1,171,300,226</b>	<b>100.00 %</b>	<b>\$ 1,154,245,654</b>	<b>100.00 %</b>

December 31, 2017



December 31, 2016



Pinellas County  
Portfolio Holdings by Security Type  
As of 12/31/2017

Description	CUSIP/Ticker	Settlement Date	Next Call Date	Call Frequency	Maturity Date	Face Amount/Shares	Market Value	Book Value	Coupon Rate	YTM @ Book	Days To Maturity
<b>FFCB Bond</b>											
FFCB 0.84 2/9/2018-13	3133ECNZ3	12/08/2015		Continuous	02/09/2018	14,000,000.00	13,993,812.00	13,995,845.00	0.840	1.125	40
FFCB 0.85 10/25/2018	3133EGZL2	10/25/2016		N/A	10/25/2018	20,000,000.00	19,862,340.00	19,989,547.00	0.850	0.915	298
FFCB 0.88 3/20/2018-16	3133EGUW3	09/27/2016		Continuous	03/20/2018	20,000,000.00	19,980,360.00	19,998,206.00	0.880	0.921	79
FFCB 0.95 5/2/2018-16	3133EFMU8	12/11/2015		Continuous	05/02/2018	20,000,000.00	19,960,360.00	19,983,667.00	0.950	1.197	122
FFCB 0.95 8/15/2018	3133EF5L7	04/29/2016		N/A	08/15/2018	20,000,000.00	19,914,000.00	20,005,180.00	0.950	0.908	227
FFCB 1.17 6/14/2018	3133EF5H1	12/14/2015		N/A	06/14/2018	20,000,000.00	19,960,080.00	19,999,911.00	1.170	1.171	165
FFCB 1.5 10/10/2019	3133EHF32	12/18/2017		N/A	10/10/2019	20,000,000.00	19,847,180.00	19,867,104.00	1.500	1.882	648
FFCB 1.58 4/17/2020	3133EHH22	12/20/2017		N/A	04/17/2020	9,795,000.00	9,695,023.00	9,710,740.00	1.580	1.965	838
FFCB 1.75 10/26/2020	3133EHJ95	11/21/2017		N/A	10/26/2020	20,000,000.00	19,811,560.00	19,921,842.00	1.750	1.893	1,030
FFCB 5.375 8/15/2018	3133X0PF0	04/29/2016		N/A	08/15/2018	8,110,000.00	8,293,975.00	8,332,179.00	5.375	0.915	227
<b>Sub Total / Average</b>						<b>171,905,000.00</b>	<b>171,318,690.00</b>	<b>171,804,221.00</b>	<b>1.349</b>	<b>1.281</b>	<b>361</b>
<b>FHLB Bond</b>											
FHLB 1 5/10/2018-17	3130A8XH1	09/21/2016	02/10/2018	Quarterly	05/10/2018	20,000,000.00	19,959,940.00	20,000,000.00	1.000	0.969	130
FHLB 1.1 3/19/2018	3130A4PA4	12/07/2015		N/A	03/19/2018	10,000,000.00	9,993,890.00	10,000,402.00	1.100	1.081	78
FHLB 1.25 1/16/2019	3130AAE46	12/22/2016		N/A	01/16/2019	20,000,000.00	19,874,340.00	19,986,795.00	1.250	1.315	381
FHLB 1.375 11/15/2019	3130AA3R7	09/26/2017		N/A	11/15/2019	20,000,000.00	19,799,440.00	19,952,496.00	1.375	1.504	684
FHLB 1.53 10/4/2019	3130ACL51	12/18/2017		N/A	10/04/2019	13,000,000.00	12,909,533.00	12,921,149.00	1.530	1.882	642
FHLB 1.75 12/14/2018	313376BR5	11/29/2016		N/A	12/14/2018	20,000,000.00	19,978,160.00	20,102,849.00	1.750	1.202	348
FHLB 1.75 6/12/2020	31338HU8	12/20/2017		N/A	06/12/2020	20,000,000.00	19,864,640.00	19,897,222.00	1.750	1.966	894
FHLB 1.875 3/13/2020	313378J77	12/20/2017		N/A	03/13/2020	20,000,000.00	19,911,480.00	19,971,792.00	1.875	1.940	803
FHLB 2 9/14/2018	313375K48	03/01/2016		N/A	09/14/2018	20,000,000.00	20,033,420.00	20,144,340.00	2.000	0.958	257
FHLB 2.375 12/13/2019	3130A0JR2	12/04/2017		N/A	12/13/2019	20,000,000.00	20,161,540.00	20,195,096.00	2.375	1.863	712
FHLB 2.875 9/11/2020	313370US5	12/05/2017		N/A	09/11/2020	20,000,000.00	20,436,280.00	20,469,924.00	2.875	1.974	985
<b>Sub Total / Average</b>						<b>203,000,000.00</b>	<b>202,922,663.00</b>	<b>203,642,065.00</b>	<b>1.753</b>	<b>1.523</b>	<b>557</b>
<b>FHLMC Bond</b>											
FHLMC 0.75 1/12/2018	3137EADN6	12/08/2015		N/A	01/12/2018	20,000,000.00	19,996,720.00	19,998,243.00	0.750	1.041	12
FHLMC 0.75 4/9/2018	3137EAE43	05/19/2016		N/A	04/09/2018	20,000,000.00	19,963,180.00	19,989,623.00	0.750	0.943	99
FHLMC 0.875 3/7/2018	3137EADP1	12/07/2015		N/A	03/07/2018	20,000,000.00	19,982,700.00	19,992,775.00	0.875	1.075	66
FHLMC 1.05 5/25/2018-16	3134G9QK6	09/21/2016	02/25/2018	Quarterly	05/25/2018	20,000,000.00	19,959,800.00	20,000,000.00	1.050	1.018	145
FHLMC 1.05 7/27/2018-16	3134G9Q67	07/27/2016	01/27/2018	Quarterly	07/27/2018	20,000,000.00	19,931,880.00	19,999,823.00	1.050	1.052	208
FHLMC 1.1 9/13/2018-16	3134GAGF5	09/13/2016	03/13/2018	Quarterly	09/13/2018	20,000,000.00	19,908,360.00	20,000,000.00	1.100	1.100	256
FHLMC 1.125 4/15/2019	3137EADZ9	12/19/2016		N/A	04/15/2019	20,000,000.00	19,816,940.00	19,930,289.00	1.125	1.401	470
FHLMC 1.5 9/9/2019-18	3134GA7A6	05/26/2017	03/09/2018	One Time	09/09/2019	20,000,000.00	19,828,680.00	19,999,262.00	1.500	1.502	617
FHLMC 1.75 5/30/2019	3137EADG1	12/16/2016		N/A	05/30/2019	20,000,000.00	19,970,680.00	20,085,448.00	1.750	1.441	515
FHLMC 1.875 11/17/2020	3137EAEK1	11/20/2017		N/A	11/17/2020	20,000,000.00	19,895,180.00	19,985,343.00	1.875	1.901	1,052
FHLMC 3.75 3/27/2019	3137EACA5	12/09/2015		N/A	03/27/2019	20,000,000.00	20,467,680.00	20,571,917.00	3.750	1.380	451
<b>Sub Total / Average</b>						<b>220,000,000.00</b>	<b>219,721,800.00</b>	<b>220,552,723.00</b>	<b>1.416</b>	<b>1.259</b>	<b>354</b>
<b>FNMA Bond</b>											
FNMA 0.85 7/13/2018-17	3135G0L43	07/15/2016	01/13/2018	Quarterly	07/13/2018	20,000,000.00	19,917,240.00	19,992,191.00	0.850	0.924	194
FNMA 0.875 8/2/2019	3135G0N33	12/19/2017		N/A	08/02/2019	11,490,000.00	11,305,850.00	11,315,487.00	0.875	1.851	579
FNMA 1 2/26/2019	3135G0J53	12/19/2016		N/A	02/26/2019	20,000,000.00	19,810,940.00	19,918,621.00	1.000	1.359	422
FNMA 1.375 1/28/2019	3135G0H63	12/22/2016		N/A	01/28/2019	20,000,000.00	19,910,560.00	20,014,231.00	1.375	1.308	393
FNMA 1.5 7/30/2020	3135G0T60	12/19/2017		N/A	07/30/2020	20,000,000.00	19,752,600.00	19,761,086.00	1.500	1.977	942
FNMA 1.875 9/18/2018	3135G0YM9	02/24/2016		N/A	09/18/2018	20,000,000.00	20,017,480.00	20,134,396.00	1.875	0.920	261
<b>Sub Total / Average</b>						<b>111,490,000.00</b>	<b>110,714,670.00</b>	<b>111,136,012.00</b>	<b>1.274</b>	<b>1.355</b>	<b>456</b>
<b>Treasury Note</b>											
T-Note 1.5 5/31/2019	912828WL0	01/31/2017		N/A	05/31/2019	20,000,000.00	19,900,000.00	20,052,171.00	1.500	1.312	516
<b>Sub Total / Average</b>						<b>20,000,000.00</b>	<b>19,900,000.00</b>	<b>20,052,171.00</b>	<b>1.500</b>	<b>1.312</b>	<b>516</b>
<b>Sub Total Securities</b>						<b>726,395,000.00</b>	<b>724,577,823.00</b>	<b>727,187,192.00</b>			

Description	CUSIP/Ticker	Settlement Date	Next Call Date	Call Frequency	Maturity Date	Face Amount/Shares	Market Value	Book Value	Coupon Rate	YTM @ Book	Days To Maturity
<b>Cash</b>											
Wells Fargo Cash	WACHCASH	09/30/2007	N/A	N/A	N/A	224,706,618.00	224,706,618.00	224,706,618.00	1.300	1.300	1
<b>Sub Total / Average</b>						<b>224,706,618.00</b>	<b>224,706,618.00</b>	<b>224,706,618.00</b>	<b>1.300</b>	<b>1.300</b>	<b>1</b>
<b>Local Government Investment Pool</b>											
FLCLASS LGIP	FLCLASS-0001	07/15/2015	N/A	N/A	N/A	86,138,433.00	86,138,433.00	86,138,433.00	1.380	1.380	1
FLGIT-DAY TO DAY FUND LGIP	FLGIT-0338	09/29/2009	N/A	N/A	N/A	40,584,623.00	40,584,623.00	40,584,623.00	1.240	1.240	1
FLORIDA PRIME LGIP	PRIME	09/30/2007	N/A	N/A	N/A	104.00	104.00	104.00	1.440	1.440	1
<b>Sub Total / Average</b>						<b>126,723,160.00</b>	<b>126,723,160.00</b>	<b>126,723,160.00</b>	<b>1.335</b>	<b>1.335</b>	<b>1</b>
<b>Public Funds Depository Accounts</b>											
BB&T MM	BBTMM-9830	08/14/2008	N/A	N/A	N/A	92,683,256.00	92,683,256.00	92,683,256.00	1.157	1.157	1
<b>Sub Total / Average</b>						<b>92,683,256.00</b>	<b>92,683,256.00</b>	<b>92,683,256.00</b>	<b>1.157</b>	<b>1.157</b>	<b>1</b>
<b>Total / Average</b>						<b>1,170,508,034.00</b>	<b>1,168,690,857.00</b>	<b>1,171,300,226.00</b>	<b>1.401</b>	<b>1.326</b>	<b>269</b>

<b>FFCB:</b> Federal Farm Credit Bank	<b>T-Note:</b> U.S. Treasury Note
<b>FHLB:</b> Federal Home Loan Bank	<b>FLCLASS:</b> The Florida Cooperative Liquid Assets Securities System
<b>FHLMC:</b> Federal Home Loan Mortgage Corporation	<b>FLGIT:</b> Florida Local Government Investment Trust
<b>FNMA:</b> Federal National Mortgage Association	<b>Florida PRIME -</b> State Board of Administration



**Pinellas County Board of County Commissioners  
Compliance with Investment Policy  
Quarter Ending December 31, 2017**

