

# 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 Chair and Members of the  
Pinellas County Board of County Commissioners

FROM:  Ken Burke, CPA  
Clerk of Circuit Court and Comptroller

SUBJECT: Quarterly Investment Report for the Period Ended March 31, 2018 ~ Format  
Revision

DATE: May 30, 2018

We are pleased to provide you with the enclosed *Quarterly Investment Report for the period ended March 31, 2018*. While the new format contains much of the same content as previous versions, we hope our readers will find it more streamlined and easier to understand. Our goal is to provide meaningful information that allows the Board and citizens to be well-informed of the County's investment activities.

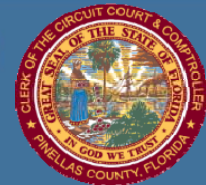
If you have any recommendations or comments regarding the report, we welcome your feedback. Feel free to contact me at 727-464-3341 or Clareth Harris, Chief Deputy Director, Finance Division at 727-464-8300.

Enclosures

Cc: Clareth N. Harris, Chief Deputy Director, Finance Division  
Jewel White, County Attorney  
Mark S. Woodard, County Administrator  
Board Records

# Pinellas County Board of County Commissioners Quarterly Investment Report

For the Period Ended March 31, 2018

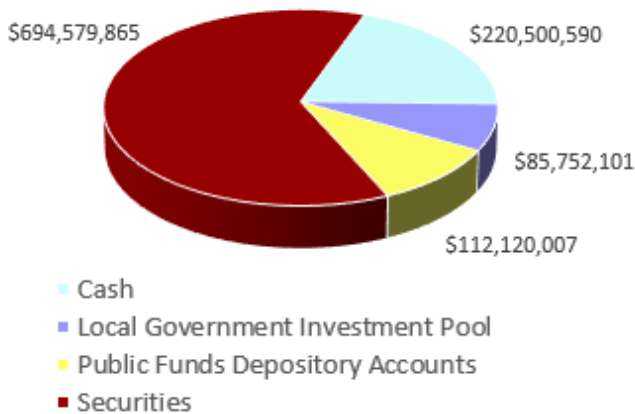


**KEN BURKE, CPA**  
CLERK OF THE CIRCUIT COURT  
AND COMPTROLLER  
PINELLAS COUNTY, FLORIDA

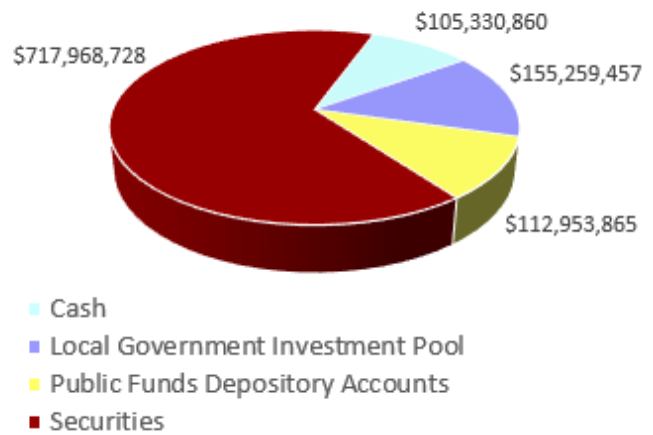
Section 218.415, Florida Statutes authorizes the governing body of a local government to adopt a written investment plan to govern investment activity. The Board of County Commissioners (Board) adopted Section 2-144 of the Pinellas County Code, Investment of Surplus Public Funds, establishing policies 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.

## Portfolio Balances

As of March 31, 2017 - \$1,112,952,563



As of March 31, 2018 - \$1,091,512,910



Portfolio Quarter-End Statistics	3/17	6/17	9/17	12/17	3/18
Total Portfolio - book value	\$1,112,952,563	\$1,026,092,972	\$950,735,097	\$1,171,300,226	\$1,091,512,910
Securities weighted average maturity (WAM)	1.18 years	1.06 years	0.93 years	1.18 years	1.13 years
Realized investment income	\$2,585,417	\$2,672,908	\$2,689,058	\$2,828,168	\$3,936,769
<b>Composite Yields (3 month daily average)</b>					
Short Term Portfolio	0.76%	0.96%	1.13%	1.22%	1.48%
Benchmark (3-month T-Bill)	0.60%	0.90%	1.06%	1.23%	1.58%
Long Term Portfolio	1.06%	1.07%	1.10%	1.19%	1.42%
Benchmark (2-year-T-Bill)	1.24%	1.29%	1.36%	1.70%	2.16%
Portfolio Overall	0.96%	1.03%	1.11%	1.20%	1.44%

\* The report reflects the three month Treasury exceeding the actual short term portfolio yield by ten basis points. This is due to a rising rate environment. The yield in our primary banking relationship is tied to the federal fund rate and our public funds depository account investment is 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.

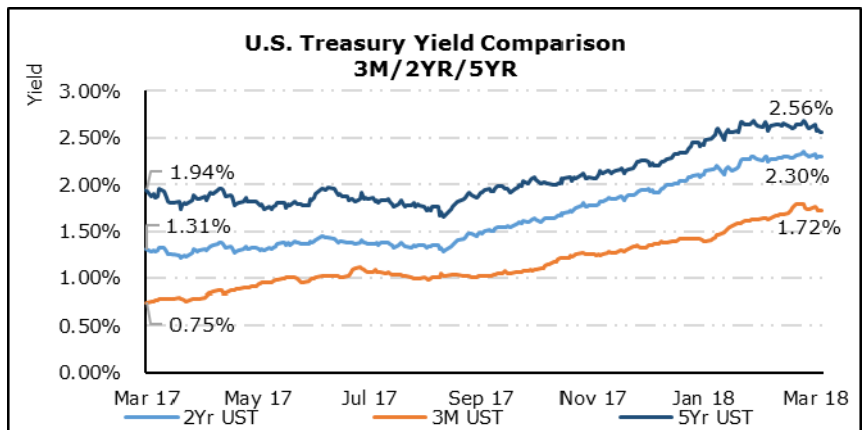
# Quarterly Investment Report

For the Period Ended March 31, 2018

## Economic Information

### Treasury Yields:

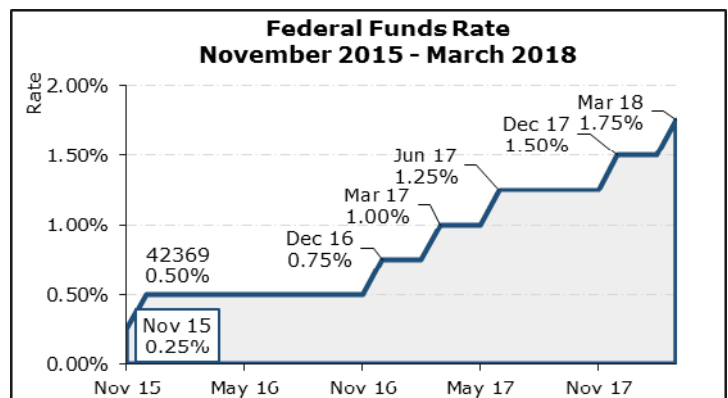
While Treasury yields continue to move higher through most of the first quarter of 2018, there was a slight decrease during the last few weeks in March. The longer-term trend of rising rates that began post Brexit in the late summer/fall of 2016 is now in its 20<sup>th</sup> month with the most dramatic increase occurring in the maturities of five years and less. Over the last twelve months the yield on the two year U.S. Treasury Note has increased by almost 1.00%. The chart to the right details the increase in rates for U.S. Treasuries since March 2017. Short term rates have benefited from the six Federal Funds rate increases that began in December of 2015. Longer term rates have also trended higher as the outlook for growth and inflation has improved over time.



Source: Bloomberg

### Federal Funds Rate:

The Federal Open Market Committee (FOMC) met in early January and late March. The FOMC voted to increase the federal funds target rate to a range of 1.50 – 1.75% percent during the March meeting. Fed funds futures are now pricing a high probability (90%) for the next rate hike to occur at the June 2018 FOMC meeting.



Source: Bloomberg

The latest quarterly forecast released by the FOMC suggests two additional quarter-point increases in the target rate before the end of the year. First quarter 2018 GDP is expected to be 1.5% - 2.0%, following a 4<sup>th</sup> quarter GDP of 2.9%. This lower growth rate in the 1<sup>st</sup> quarter of the calendar year follows the recent trend of a slowdown in GDP growth following a robust 4<sup>th</sup> quarter.

### Consumer Price Index (CPI):

The core consumer-price index, which excludes food and energy, increased 2.10% year over year in March, the first reading above 2.00% in twelve months. Inflation has been persistently below the Fed's desired level although the recent uptick in CPI, along with the surge in producer price index (PPI), may suggest that inflation will begin to trend above the 2.00% target. Current Bloomberg forecasts suggest inflation may reach 2.5% for 2018. This would support the Fed's further tightening of the monetary policy as they continue to raise the Federal Funds overnight target rate during the year.

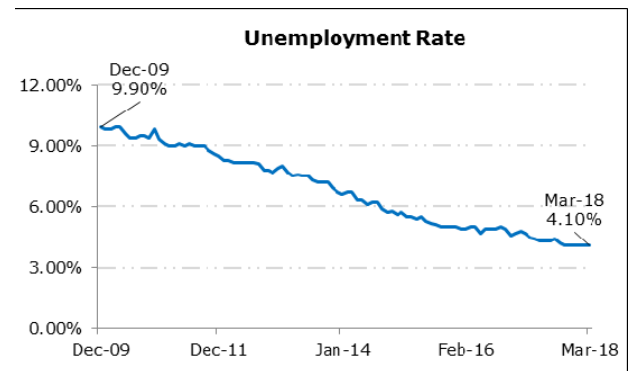
# Quarterly Investment Report

For the Period Ended March 31, 2018

## Unemployment Rate:

Bureau of Labor Statistics has indicated that the unemployment rate remained 4.1% through March 2018 for the sixth consecutive month.

Despite minimal job growth in March with 103,000 added to non-farm payrolls, a strong January and February resulted in a healthy monthly average of 200,000 jobs created during the first quarter of 2018. This follows a strong labor market in 2017 when more than 2 million jobs were created during the year. The impact of the Tax Cuts and Job Act (TCJA), and with more than 6 million jobs openings nationally, have many economists optimistic that the labor market will continue to tighten, which may also result in upward pressure on wages and an increase in inflation during 2018.



Source: Bloomberg

## Consumer Confidence:

The Conference Board's Consumer Confidence Index as of March 2018 was 127.70. "Consumer confidence declined moderately in March after reaching an 18-year high in February," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions declined slightly, with business conditions as the primary reason for the moderation. Consumers' short-term expectations also declined, including their outlook for the stock market, but overall expectations remain quite favorable. Despite the modest retreat in confidence, index levels remain historically high and suggest further strong growth in the months ahead."

## Investment Strategy:

As noted above, the U.S. economy continued the familiar pattern of sluggishness in the first quarter, with projected growth far below the third and fourth quarter of 2017. Nonetheless, the economy still appears fundamentally sound and this could pave the way for stronger growth later this year. With the FOMC remaining committed to raising its target rate several more times this year, short-term rates continue to ratchet higher, providing yields we have not seen in a decade. With the overall duration of the County's portfolio relatively short, investments have been made available in the two to three-year area of the curve to capture the yields. Spreads have also widened in Agency debt, allowing the County to capture higher income while diversifying the portfolio into this asset class. However, the investment team remains mindful of future rate hikes from the FOMC and are still remaining somewhat cautious when adding duration to the investment portfolio.

# Quarterly Investment Report

For the Period Ended March 31, 2018

## Pinellas County Board of County Commissioners Portfolio Summary

Investments	----- March 31, 2017 -----		----- March 31, 2018 -----			Portfolio Maximum	Issuer Limitation	Compliant
	Book Value	% of Portfolio	Book Value	Market Value	% of Portfolio			
Cash	\$ 220,500,590	19.81%	\$ 105,330,860	\$ 105,330,860	9.65%			
Public Funds Depository Accounts	112,120,007	10.07%	112,953,865	112,953,865	10.35%			
<b>Subtotal</b>	<b>332,620,597</b>	<b>29.88%</b>	<b>218,284,725</b>	<b>218,284,725</b>	<b>20.00%</b>	50%	N/A	Yes
<b>Local Government Investment Pools</b>	<b>85,752,101</b>	<b>7.70%</b>	<b>155,259,457</b>	<b>155,259,457</b>	<b>14.22%</b>	50%	N/A	Yes
U.S. Government-Sponsored Enterprise								
Federal Farm Credit Bank	142,485,261	12.81%	177,668,722	176,991,727	16.28%		30%	Yes
Federal Home Loan Bank	90,461,269	8.13%	228,643,640	227,141,779	20.95%		30%	Yes
Federal Home Loan Mortgage Corp.	240,813,056	21.64%	180,455,697	179,321,800	16.53%		30%	Yes
Federal National Mortgage Association	120,411,570	10.82%	111,157,598	110,487,724	10.18%		30%	Yes
<b>Subtotal GSE's</b>	<b>594,171,156</b>	<b>53.40%</b>	<b>697,925,657</b>	<b>693,943,030</b>	<b>63.94%</b>	75%		Yes
Treasury Note	<b>100,408,709</b>	<b>9.02%</b>	<b>20,043,071</b>	<b>19,843,750</b>	<b>1.84%</b>	75%	N/A	Yes
<b>Subtotal Securities</b>	<b>\$ 694,579,865</b>	<b>62.42%</b>	<b>\$ 717,968,728</b>	<b>\$ 713,786,780</b>	<b>65.78%</b>			
<b>Total Portfolio Book Value</b>	<b>\$ 1,112,952,563</b>	<b>100.00%</b>	<b>\$ 1,091,512,910</b>	<b>\$ 1,087,330,962</b>	<b>100.00%</b>			