

September 27, 2016

TO: MEMBERS OF THE SCHOOL BOARD OF PINELLAS COUNTY

FROM: MICHAEL A. GREGO, Ed.D., SUPERINTENDENT

SUBJECT: Request Approval of the Investment Portfolio Financial Statements for the Quarter Ended June 30, 2016

BACKGROUND:

The Quarterly Investment Report is a quarterly and year-to-date summary of the portfolio performance.

STRATEGIC DIRECTION: Effective & Efficient Use of Resources

ALTERNATIVES:

1. Adopt the Investment Portfolio Financial Statements
2. Do not adopt the Investment Portfolio Financial Statements

RECOMMENDATIONS:

Alternative No. 1 is recommended.

RATIONALE:

The most recent quarterly unaudited financial statements of the board's investment activities are included herein. The board's approval of this approach to investments has resulted in greater investment income than previously obtainable. The format includes comparative information with respect to earnings performance. The actual and Pro Forma information are condensed to facilitate comparisons. The quarterly investment report includes two benchmarks for comparison. Benchmark 1 is a composite of market indices and Benchmark 2 is the Florida Prime (formerly SBA LGIP) fund.

FINANCIAL IMPACT:

The Managed Investment Program (MIP) earnings for the quarter ended June 30, 2016, totaled \$975,632 after recognizing a market value adjustment of \$267,310. For the quarter, the MIP outperformed the weighted average index (WAI) (Benchmark 1) by \$130,818. For the quarter, the MIP outperformed the State Board of Administration (Benchmark 2) by \$389,589. The MIP earnings have exceeded the potential State Board of Administration by \$34,018,987 since inception (as noted in footnote 3). The district's MIP currently has an unrealized market loss of \$431,292. Since the district's policy is to buy and hold securities, this loss will eventually be returned as principal is returned, or bonds mature. If the district's bonds were priced at par (100) as of June 30, 2016, the district's cumulative return over the SBA would be \$35,450,279.

DATA SOURCES:

Kevin W. Smith, CPA, Associate Superintendent, Finance and Business Services
Andrew S. Jacobsen, Manager, Cash & Investments
Investment Oversight Committee

SUBMITTED BY:

Kevin W. Smith, CPA, Associate Superintendent, Finance and Business Services

Quarterly Investment Report

June 30, 2016

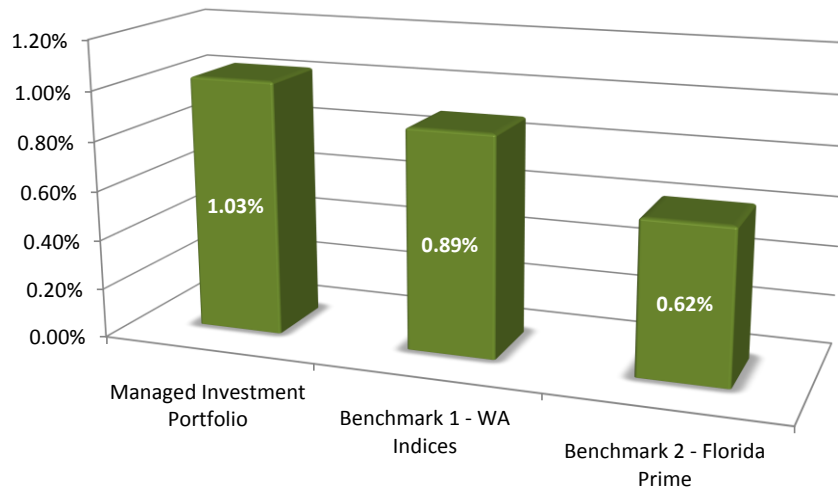


prepared by Cash Management Department

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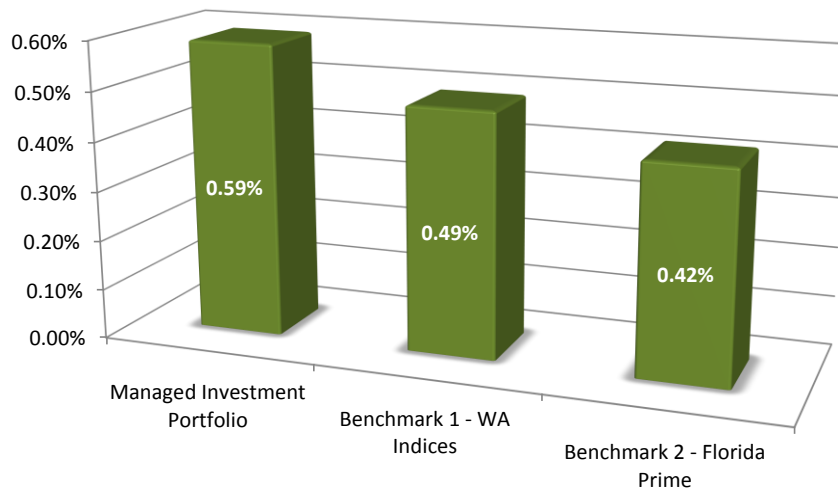
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Yield Comparison Current Quarter



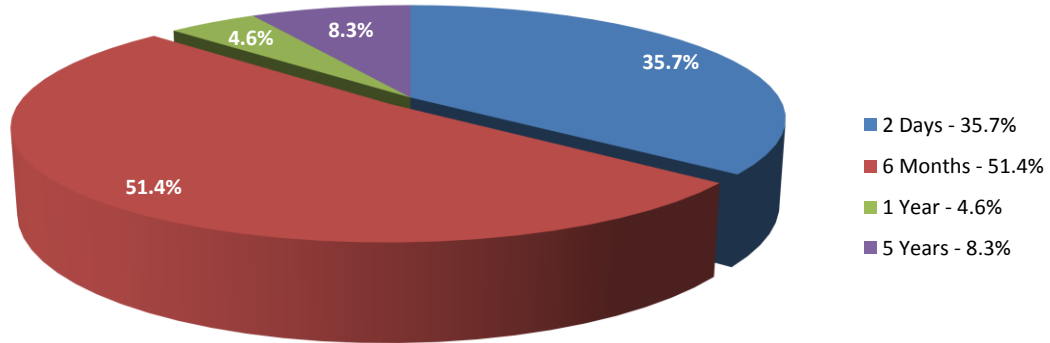
The yield on the district's managed investment program was 1.03% for the quarter ended June 30, 2016.

Yield Comparison Year to Date



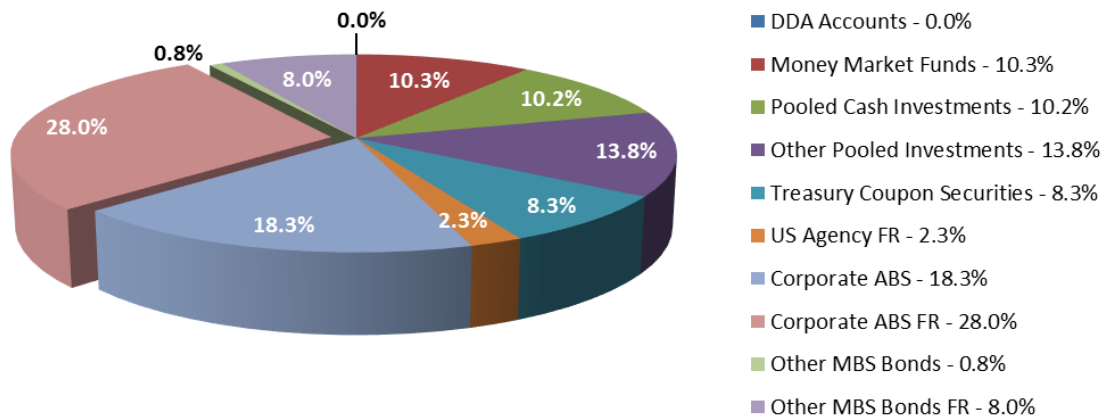
The yield on the district's managed investment program was 0.59% for the fiscal year ended June 30, 2016.

Investments by Duration June 30, 2016



The above chart breaks down the duration of the district’s investment by time frame. The largest category, 2 days duration, represents liquid cash that can be accessed within 2 days. The other categories represent investments whose modified duration falls within that time frame.

Investments by Type June 30, 2016



The above chart breaks down the district’s portfolio by investment type. For example, the largest category is Corporate Asset-Backed Securities representing 28% of the portfolio.

Portfolio Assets	6/30/16			6/30/15
Investment in U.S. Treasury and Agency Securities:				
Investments (securities at market value)	\$161,316,781			\$202,483,371
Other Pooled Investments	33,929,690			32,114,690
State Board of Administration Fund B	0			38,381
Accrued Interest Receivable and Prepaid Interest	329,586			443,507
Total U.S. Treasury and Agency Securities	\$195,576,057			\$235,079,949
Cash Investments				
Money market funds	25,267,953			6,594,056
Pooled Cash Investments	25,138,333			0
Bank accounts (DDA & MMA)	76,492			6,726,605
Total Cash Investments	\$50,482,779			\$13,320,662
Total Managed Investment Portfolio Value	\$246,058,836			\$248,400,610
	Quarter End	Y-T-D		Prior Year
	6/30/16	6/30/16		6/30/15
Portfolio Income				
Interest Earned				
U.S. Government Securities & Other Pooled Accounts	711,538	3,627,005		5,641,219
Money Market Funds	161,573	358,785		25,941
Bank Accounts	0	10,384		30,051
Total Interest Earned	873,111	3,996,174		5,697,211
Net increase/(decrease) in fair value of investments - Note 2	102,520	(1,946,874)		(1,761,967)
Total Managed Investment Portfolio Earnings	\$975,632	\$2,049,300		\$3,935,244
	Quarter End	Y-T-D		Prior Year
	6/30/16	6/30/16		6/30/15
Yield Comparison - Page 5				
<i>Managed Investment Portfolio</i>				
Annualized Rate of Return	1.03%	0.59%		0.95%
<i>Benchmark 1 - Weighted Average of Comparable Indices</i>				
Annualized Rate of Return	0.89%	0.49%		0.31%
Managed Investment Portfolio Yield vs. Benchmark 1	0.14%	0.10%		0.64%
<i>Benchmark 2 - Florida Prime MMF (SBA LGIP)</i>				
Annualized Rate of Return	0.62%	0.42%		0.18%
Managed Investment Portfolio Yield vs. Benchmark 2	0.41%	0.17%		0.77%

Pinellas County Schools
Quarterly Investment Report

June 30, 2016
Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.	% of Port
Treasury Coupon Securities									
UST 1.375%	912828L65	19,985,862	20,363,200	377,338	69,126	\$20,432,326	Aaa	4.11	8.3%
subtotal		\$19,985,862	\$20,363,200	\$377,338	\$69,126	\$20,432,326	AAA	4.11	8.3%
US Agency FR									
FNR 07-114 A6	31396X3Q5	609,621	609,572	(49)	104	\$609,676	Aaa	0.00	0.2%
FNR 04-79 FP	31394BFD1	5,110,591	5,104,565	(6,026)	634	\$5,105,199	Aaa	0.23	2.1%
subtotal		\$5,720,212	\$5,714,137	(\$6,075)	\$738	\$5,714,874	AAA	0.21	2.3%
Corporate ABS									
CHAIT 13-A8 A8	161571GC2	18,602,362	18,612,462	10,100	8,349	\$18,620,811	Aaa	0.29	7.6%
COMET 13-A3 A3	14041NEM9	14,992,447	15,009,150	16,703	6,400	\$15,015,550	AAA	0.37	6.1%
HERTZ 13-1A A1	42805RBL2	2,595,186	2,592,633	(2,553)	484	\$2,593,117	Aaa	0.00	1.1%
SDART 14-4 A3	80283YAD7	4,113,114	4,115,030	1,916	1,975	\$4,117,005	Aaa	0.12	1.7%
WLAKE 2015-1AA2	96042AAB1	4,598,195	4,588,469	(9,726)	2,387	\$4,590,855	AAA	0.19	1.9%
subtotal		\$44,901,303	\$44,917,744	\$16,441	\$19,595	\$44,937,339	AAA	0.27	18.3%
Corporate ABS FR									
AMOT 15-2 A1	02005AFD5	15,020,995	14,989,050	(31,945)	6,747	\$14,995,797	Aaa	0.21	6.1%
CHAIT 12-A10A10	161571FT6	17,571,374	17,600,000	28,626	5,492	\$17,605,492	AAA	0.21	7.2%
FORDF 14-2 A	34528QDA9	10,901,165	10,815,429	(85,735)	4,560	\$10,819,990	Aaa	0.21	4.4%
GEDFT 14-1 A	36159LCK0	15,974,430	15,962,560	(11,870)	4,048	\$15,966,608	Aaa	0.23	6.5%
NGN 2010-R3 1A	62888WAA4	9,475,419	9,412,403	(63,017)	6,301	\$9,418,704	Aaa	0.27	3.8%
subtotal		\$68,943,383	\$68,779,442	(\$163,941)	\$27,148	\$68,806,590	AAA	0.22	28.0%
Other MBS Bonds									
JPMCC 04-LN2 A2	46625YCV3	524,209	514,226	(9,983)	2,189	\$516,415	Aaa	0.19	0.2%
WBCMT 06-C26 A3	92977RAD8	1,484,415	1,397,673	(86,743)	7,011	\$1,404,683	Aaa	0.10	0.6%
subtotal		\$2,008,624	\$1,911,899	(\$96,725)	\$9,200	\$1,921,099	AAA	0.12	0.8%

Pinellas County Schools
Quarterly Investment Report

June 30, 2016
Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.	% of Port
Other MBS Bonds FR									
SBA 522203	83165AU44	11,556,760	11,376,822	(179,938)	75,142	\$11,451,964	Aaa	0.55	4.6%
SBA 522179	83165AUC6	8,349,457	8,253,538	(95,918)	53,505	\$8,307,043	Aaa	0.45	3.4%
subtotal		\$19,906,217	\$19,630,360	(\$275,856)	\$128,647	\$19,759,007	AAA	0.51	8.0%
Cash, MMFs, & Investment Pools									
Bank Accounts ¹	N/A	76,492	76,492	0	0	76,492	NR	1d	0.0%
Money Market Funds ¹	N/A	25,267,953	25,267,953	0	16,492	25,284,445	AAAm	0d	10.3%
FL FIT (CP Portfolio) ^{1,2}	140021420B	25,138,333	25,138,333	0	0	25,138,333		0d	10.2%
FL FIT (1-3 Yr Portfolio) ³	140021420	34,212,162	33,929,690	(282,472)	0	33,929,690	AA	0.00	13.8%
subtotal		\$84,694,941	\$84,412,469	(\$282,472)	\$16,492	\$84,428,961	AA-	0.00	34.4%
Managed Investment Program		\$246,160,542	\$245,729,250	(\$431,292)	\$270,945	\$246,000,195	AAA-	0.63	

¹Figure shown is Weighted Average Maturity, or WAM, instead of Modified Duration

²Shares of the Core Fund were transferred into the Florida Fixed Income Trust (FL FIT), 1-3 Yr Portfolio.

³The FL FIT Commercial Paper (CP) Portfolio is in the process of being rated by S&P.

Unrealized Gain/Loss as a percent of total market value: -0.18%

	Quarter End 6/30/16	Y-T-D 6/30/16	Prior Year 6/30/15
Average Invested Value of Managed Investment Portfolio	\$381,714,005	\$347,019,868	\$415,617,146
Managed Investment Portfolio Yield			
Total Managed Investment Portfolio Earnings	\$975,379	\$2,049,300	\$3,935,244
<i>Managed Investment Portfolio Annualized Rate Of Return</i>	1.03%	0.59%	0.95%
Benchmark 1 - Weighted Average of Comparable Indices			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/16	844,561	844,561	1,295,583
Quarter Ended 3/31/16		569,918	
Quarter Ended 12/31/15		22,224	
Quarter Ended 9/30/15		256,049	
Total Pro Forma Benchmark 1 Earnings	\$844,561	\$1,692,751	\$1,295,583
<i>Benchmark 1 Annualized Rate Of Return</i>	0.89%	0.49%	0.31%
Benchmark 2 - Florida Prime (SBA LGIP)			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/16	585,790	585,790	554,804
Quarter Ended 3/31/16		587,058	
Quarter Ended 12/31/15		177,494	
Quarter Ended 9/30/15		112,409	
Total Pro Forma Benchmark 2 Earnings	\$585,790	\$1,462,751	\$554,804
<i>Benchmark 2 Annualized Rate Of Return</i>	0.62%	0.42%	0.18%
Earnings Comparison			
<i>Annualized Rate of Return</i>			
Managed Investment Portfolio vs. Benchmark 1	0.14%	0.10%	0.64%
Managed Investment Portfolio vs. Benchmark 2	0.41%	0.17%	0.77%
<i>Dollar Earnings</i>			
Managed Investment Portfolio vs. Benchmark 1	\$130,818	\$356,549	\$2,639,661
Managed Investment Portfolio vs. Benchmark 2	\$389,589	\$586,549	\$3,380,440

Note 1 – Securities Valuation

Starting June 30, 1997, Investments are valued at current market value. Prior to August 12, 1992 all cash was invested with the SBA. The Managed Investment Program (MIP) refers to assets actively managed for higher earnings than what would be achieved if all surplus district cash were held in a deposit account. Cash needed for current expenditures is held in interest bearing deposit accounts, money market funds, and pooled investment accounts. Bonds are priced by comparing the current coupon to the yield an investor would get if they purchased a similar bond in the open market as of the pricing date. An inverse relationship exists between yield and price. When yields rise, market prices fall, conversely when yields fall, market prices rise. The district uses the custodian’s market prices to value its securities at month-end. The custodian purchases its pricing from IDC, Interactive Data Corporation. IDC is a provider of global investment market data to the financial industry.

Note 2 – Calculation of Net increase/(decrease) in fair value of investments

The Governmental Accounting Standards Board (GASB) Statement 31 requires that all Governmental entities must adjust the book value of most investment securities to current market value. Securities with a fixed coupon and a final maturity of less than one year are exempt. Since most securities held by money market funds meet the above criteria, investments in money market funds are also exempt. The amount of the adjustment will be netted against interest earned for the reporting period. Securities exempt from GASB 31 will be recorded on the books at amortized cost.

At month end, the market prices from the district’ custodian, will be used to calculate the change in fair value from the prior month. The changes in value and interest earnings are booked to the general ledger in separate revenue functions. Since the district’s strategy is to buy and hold, over time, the net of the change in value and interest earnings should closely approximate the purchase yield of the portfolio. The following table summarizes the relationship between realized gains and losses and the adjustment to fair value per GASB 31.

June 30, 2016	<u>Quarter End</u>	<u>Fiscal Y-T-D</u>	<u>Prior Fiscal Year</u>
Realized Gains/Losses	(165,043)	(1,206,086)	(4,736,553)
MV Adjustment for Period	267,310	(740,788)	2,974,586
Net Incr/(Decr) in fair value of investments	<u>102,267</u>	<u>(1,946,874)</u>	<u>(1,761,967)</u>

Note 3 – Cumulative Return Over the SBA

For the fiscal year-to-date, the Managed Investment Portfolio’s (MIP) earnings were greater than the State Board of Administration’s (SBA) local government investment pool by \$586,549. Since August 1992, the MIP’s cumulative earnings were over the SBA by 35,018,987.

Note 4 – Effect of Unrealized Gains and Losses on Income

The district’s MIP currently has an unrealized loss of \$431,292. This figure has been netted against interest income. If the district’s bonds were priced at par (100) as of June 30, 2016, the district’s cumulative earnings over the SBA would be \$35,450,279.

Note 5 – Implied Ratings on US Agency Mortgage-Backed Securities

Mortgage-backed securities (MBS), including pools and Collateralized Mortgage Obligations (CMO), issued by US government agencies (GNMA, FNMA, and FHLMC) are not rated by the any rating agency. This is due to the implicit, in the case of FNMA and FHLMC, and explicit, in the case of GNMA, backing of

the United States government. An implied rating based on the sovereign rating of US government issued debt is used. Currently this rating is AAA.

Credit Risk

The district's Investment Policy (6144) permits investments in US government and US government guaranteed bonds, Federal agency (Government Sponsored Enterprise, GSE) bonds, collateralized bonds, and short-term, money market investments. The district has \$113,697,186 in corporate asset-backed securities. The credit enhancements, short duration, and high ratings of these bonds demonstrate the safety and liquidity of these bonds. Securities in the Exempt category include U.S. Government obligations and obligations with an explicit U.S. Government guarantee. The non-compliant category consists of the district's investment in SBA Fund B accounts. This investment is frozen by the SBA. Money is distributed as the investments in the fund return principal or mature.

Credit Risk

Investment Category	Market Value	Average Rating
Cash	\$84,412,469	AA-
Treasury Coupon Securities	\$20,363,200	AAA
US Agency FR	\$5,714,137	AAA
Corporate ABS	\$44,917,744	AAA
Corporate ABS FR	\$68,779,442	AAA
Other MBS Bonds	\$1,911,899	AAA
Other MBS Bonds FR	\$19,630,360	AAA
Portfolio	\$245,729,250	AAA-

Concentration of Credit Risk

The district's Investment Policy (6144) permits investments in US government and US government guaranteed bonds, Federal agency (Government Sponsored Enterprise, GSE) bonds, collateralized bonds, and short-term, money market investments. For this reason, the Policy does not separately address concentration of credit risk. The Manager, Cash & Investments is allowed to invest up to 5% of the total portfolio value in bonds that are not otherwise permitted under the Funds Management Policy. The concentration risk of these investments is 5%.

Securities exempt from Concentration of Credit Risk disclosure include U.S. Government obligations and obligations with an explicit U.S. Government guarantee. In addition, investment pools and money market fund investments are also exempt.

Concentration of Credit Risk

Issuer	Percent of Total	Market Value	Issuer Full Name
EX	34.35%	\$84,412,469	Exempt
UST	8.29%	20,363,200	United States Treasury
CHASE	14.74%	36,212,462	Chase Issuance Trust
COMET	6.11%	15,009,150	Cap One Multi Asset Execution
ALLY	6.10%	14,989,050	ALLY Master Owner Trust
GEDFT	6.50%	15,962,560	GE Dealer Floorplan Master Tru
SBA	7.99%	19,630,360	State Board of Administration

Securities Where Issuer Represents More Than 5% of Portfolio

Issuer	CUSIP	Market Value	Description
UST	912828L65	20,363,200.00	UST 1.375%
CHASE	161571GC2	18,612,462.00	CHAIT 13-A8 A8
CHASE	161571FT6	17,600,000.00	CHAIT 12-A10A10
GEDFT	36159LCK0	15,962,560.00	GEDFT 14-1 A
COMET	14041NEM9	15,009,150.00	COMET 13-A3 A3
ALLY	02005AFD5	14,989,050.00	AMOT 15-2 A1
SBA	83165AU44	11,376,821.70	SBA 522203
SBA	83165AUC6	8,253,538.37	SBA 522179

Interest Rate Risk

The district's Investment Policy (6144) requires the average duration of the portfolio to be less than five years.

Modified Duration Risk

Modified duration expresses the amount of time in years until half of the principal is returned. This calculation takes into account the coupon rate, interest and principal payment frequency, call options, and sensitivity of price to changes in interest rates. Factors that extend the return of principal, or make it more time uncertain, increase the duration. Factors that quicken the return of principal, or make it more time certain, decrease the duration. Duration will also change as the level of interest rates in the economy rise and fall. With the current level of interest rates, the above table indicates that the district will receive 50% of invested principal in 0.63 years, or 7.56months.

Floating/Adjustable Interest Rate Risk

The district currently has \$94,123,939 invested in securities with floating or adjustable interest rate risk. \$94,123,939 is invested in floating rate bonds. The coupon on these bonds resets monthly, or quarterly, based on an index rate. The coupons on these bonds range from 0.41% to 6.11%.

Call Option Risk

There are three types of call options, "one-time" calls, "discrete" calls and "continuous" calls. These are listed in order of increasing risk. A one-time call means that at one specified time before maturity, the issuer of a bond has the option to call the bond, or buy it back from investors. A discrete call means that at specific times, usually either quarterly or semi-annually, before maturity, the issuer can call the bond.

A continuous call means that starting at a specified point in time, usually an interest payment date, and at any time thereafter, up to the maturity date, the issuer can call the bond. The district currently has no callable bonds.

MBS/ABS Prepayment Risk

There are two types of Mortgage-Backed Securities (MBSs) in which the district invests. Agency pools are collections, or pools, of mortgages in which the investor receives the principal and interest payments in the same proportion as the borrowers pay them. CMO bonds are backed by mortgage pools, however, the principal payment of the bond has been altered to be either more or less time certain than the underlying mortgages. ABS bonds are securities that are collateralized by financial products other than residential mortgages. For example car loans/leases, commercial mortgages, or credit card loans. MBSs have a unique type of "call" risk, in that homeowners may opt to prepay their mortgage at any time. While there are many factors which determine whether a homeowner will prepay their mortgage, one of the most significant is the level of interest rates. When rates fall it is more advantageous to the homeowner to refinance their mortgage to a lower rate. When rates rise, this type of prepayment will decrease.

The duration on the District's portfolio ranges from 0 years to 4.11 years. The duration on the District's ABS/MBS bonds ranges from 0.1 years to 0.55 years.

Interest Rate Risk

Investment Category	Market Value	Mod. Dur.
Exempt	\$50,482,779	0.00
Investment Pool	\$33,929,690	0.00
Treasury Coupon Securities	\$20,363,200	4.11
US Agency FR	\$5,714,137	0.21
Corporate ABS	\$44,917,744	0.27
Corporate ABS FR	\$68,779,442	0.22
Other MBS Bonds	\$1,911,899	0.12
Other MBS Bonds FR	\$19,630,360	0.51
Portfolio	\$245,729,250	0.63