

September 22, 2015

TO: MEMBERS OF THE SCHOOL BOARD OF PINELLAS COUNTY

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

RE: Request Adoption of the Investment Portfolio Financial Statements for the Quarter Ended June 30, 2015

BACKGROUND:

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

STRATEGIC DIRECTION/GOAL: Effective & Efficient Use of Resources

ALTERNATIVES:

1. Adopt the financial statements.
2. Do not adopt the financial statements.

RECOMMENDATION:

Alternative 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.

IMPACT STATEMENT:

The Managed Investment Program (MIP) earnings for the quarter ended June 30, 2015, totaled \$253,006 after recognizing a negative market value adjustment of \$1,401,098. For the quarter, the weighted average index (WAI) (benchmark 1) outperformed the MIP by \$87,344. For the quarter, the MIP outperformed the State Board of Administration (benchmark 2) by \$68,140. The MIP earnings have exceeded the potential State Board of Administration by \$34,432,438 since inception (as noted in footnote 3). The district's MIP currently has an unrealized market loss of \$2,798,558. 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, 2015, the district's cumulative return over the SBA would be \$37,230,996.

DATA SOURCE:

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

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Quarterly Investment Report

June 30, 2015



prepared by Cash Management Department

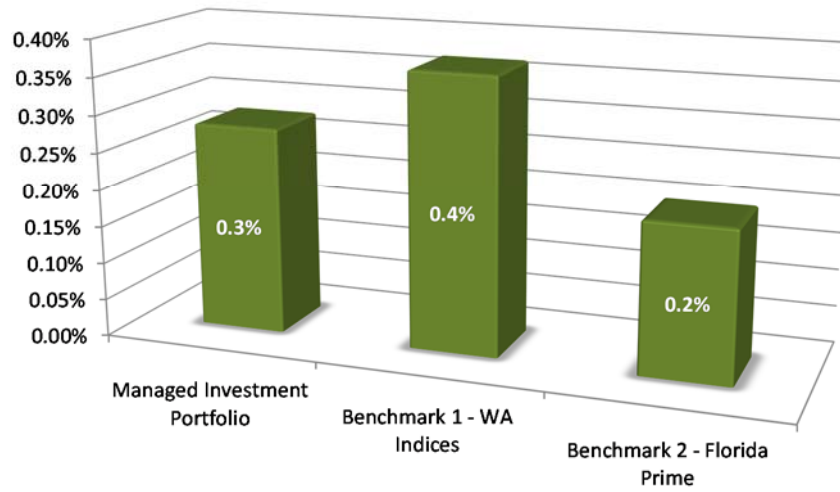
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Table of Contents

Section	Page
Yield Comparison Charts	1
Portfolio Composition Charts	2
Asset Value and Income Statement	3
Total Investment Value	4
Yield Comparison Analysis	6
Notes to Quarterly Report	7
Risk Disclosures	8

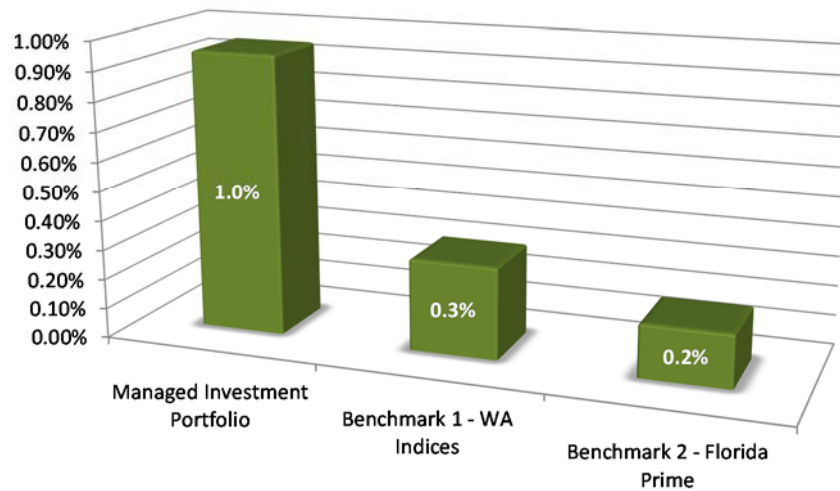
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Yield Comparison Current Quarter



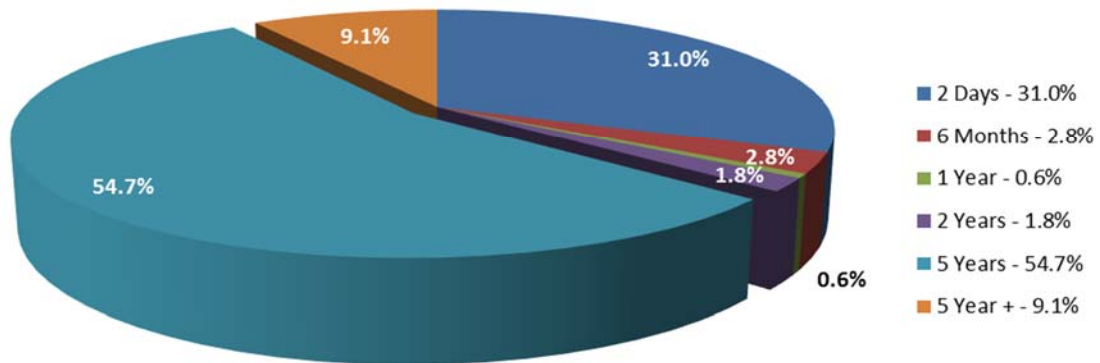
The yield on the district's managed investment program was 0.28% for the quarter ended June 30, 2015.

Yield Comparison Year to Date



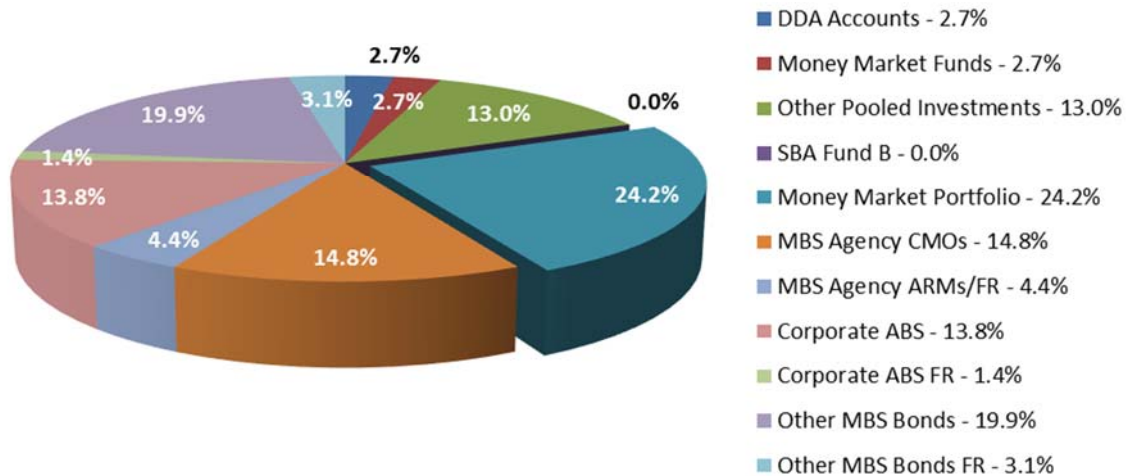
The yield on the district's managed investment program was 0.95% for the fiscal year ended June 30, 2015.

Investments by Duration June 30, 2015



The above chart breaks down the duration of the district’s investment by time frame. The largest category, 5 years duration, represents liquid cash that can be accessed within 5 years. The other categories represent investments whose modified duration falls within that time frame.

Investments by Type June 30, 2015



The above chart breaks down the district’s portfolio by investment type. For example, the largest category is Agency, GNMA, FNMA, FHLMC, etc..., Mortgage-Backed Securities (MBS) representing 41% of the portfolio.

Portfolio Assets	6/30/15			6/30/14
Investment in U.S. Treasury and Agency Securities:				
Investments (securities at market value)	\$202,483,371			\$226,091,853
Other Pooled Investments	32,114,690			36,089,339
State Board of Administration Fund B	38,381			226,295
Accrued Interest Receivable and Prepaid Interest	443,507			554,475
Total U.S. Treasury and Agency Securities	\$235,079,949			\$262,961,961
Cash Investments				
Money market funds	6,594,056			8,172,755
Bank accounts (DDA & MMA)	6,726,605			6,532,907
Total Cash Investments	\$13,320,662			\$14,705,662
Total Managed Investment Portfolio Value	\$248,400,610			\$277,667,623
	Quarter End	Y-T-D	Prior Year	
	6/30/15	6/30/15	6/30/14	
Portfolio Income				
Interest Earned				
U.S. Government Securities & Other Pooled Accounts	1,628,780	5,641,219	7,940,245	
Money Market Funds	4,756	25,941	19,305	
Bank Accounts	10,540	30,051	34,981	
Total Interest Earned	1,644,077	5,697,211	7,994,531	
Net increase/(decrease) in fair value of investments - Note 2	(1,391,071)	(1,761,967)	(9,277,556)	
Total Managed Investment Portfolio Earnings	\$253,006	\$3,935,244	(\$1,283,025)	
	Quarter End	Y-T-D	Prior Year	
	6/30/15	6/30/15	6/30/14	
Yield Comparison - Page 5				
<i>Managed Investment Portfolio</i>				
Annualized Rate of Return	0.28%	0.95%	-0.29%	
<i>Benchmark 1 - Weighted Average of Comparable Indices</i>				
Annualized Rate of Return	0.37%	0.31%	0.70%	
Managed Investment Portfolio Yield vs. Benchmark 1	-0.09%	0.64%	-0.99%	
<i>Benchmark 2 - Florida Prime MMF (SBA LGIP)</i>				
Annualized Rate of Return	0.20%	0.18%	0.10%	
Managed Investment Portfolio Yield vs. Benchmark 2	0.08%	0.77%	-0.39%	

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Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
Money Market Portfolio - 24.2%								
UST 0.875%	912828RU6	15,049,117	15,087,900	38,783	11,117	\$15,099,017	AAA	1.41
UST 0.625%	912828UA6	14,830,234	14,935,500	105,266	7,941	\$14,943,441	AAA	2.39
UST 0 7/8%	912828RX0	15,041,982	15,087,900	45,918	357	\$15,088,257	AAA	1.49
UST 0 3/4%	912828UE8	14,863,492	14,968,350	104,858	306	\$14,968,656	AAA	2.47
subtotal		\$59,784,825	\$60,079,650	\$294,825	\$19,720	\$60,099,370	AAA	1.94
MBS Agency CMOs - 14.8%								
FHR 4039 JA	3137AQNA2	4,079,014	3,893,731	(185,283)	5,112	\$3,898,842	AAA	4.60
FHR 4399 CB	3137BERG1	13,969,085	13,896,907	(72,178)	28,436	\$13,925,343	AAA	1.05
FHR 3893 DJ	3137AD2V8	5,370,213	5,350,254	(19,959)	8,803	\$5,359,057	AAA	1.33
FNR 12-90 DA	3136A7RE4	13,143,810	12,483,621	(660,189)	16,252	\$12,499,873	AAA	2.66
GNR 08-38 PS	38375QGZ6	86,319	82,681	(3,638)	241	\$82,922	AAA	0.15
GNR 13-26 GA	38378JBV3	769,849	767,727	(2,121)	1,111	\$768,838	AAA	1.94
GNR 10-167 KW	38377NUW2	167,715	161,810	(5,905)	670	\$162,480	AAA	0.25
subtotal		\$37,586,004	\$36,636,731	(\$949,273)	\$60,624	\$36,697,355	AAA	2.03
MBS Agency ARMs/FR - 4.4%								
FNR 07-114 A6	31396X3Q5	1,766,928	1,750,543	(16,385)	230	\$1,750,773	AAA	2.15
G2 82577	36225E2K7	2,277,944	2,233,143	(44,801)	5,411	\$2,238,553	AAA	2.89
G2 82462	36225EWY4	1,884,558	1,869,553	(15,005)	3,739	\$1,873,293	AAA	3.47
G2 82539	36225EZD7	2,523,002	2,494,706	(28,296)	7,434	\$2,502,140	AAA	3.08
G2 82558	36225EZY1	2,657,590	2,630,766	(26,823)	7,830	\$2,638,596	AAA	3.83
subtotal		\$11,110,021	\$10,978,711	(\$131,310)	\$24,644	\$11,003,355	AAA	3.14
Corporate ABS - 13.8%								
AESOP 12-1A A	05377RAX2	4,556,836	4,538,955	(17,882)	2,845	\$4,541,800	Aaa	0.10
HART 12-A D	44890GAG0	15,785,895	15,696,457	(89,438)	18,001	\$15,714,458	Aaa	0.78
SDART 11-1 D	80282PAF2	9,082,556	9,011,381	(71,175)	16,009	\$9,027,390	Aaa	0.12
SDART 13-A A3	80283JAC2	4,979,704	4,970,581	(9,123)	2,253	\$4,972,834	Aaa	0.24
subtotal		\$34,404,990	\$34,217,373	(\$187,617)	\$39,108	\$34,256,481	AAA	0.44

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
Corporate ABS FR - 1.4%								
GCCT 12-3A A	380881BP6	3,504,544	3,500,245	(4,299)	850	\$3,501,095	Aaa	0.04
subtotal		\$3,504,544	\$3,500,245	(\$4,299)	\$850	\$3,501,095	AAA	0.04
Other MBS Bonds - 19.9%								
CD 06-CD2 A4	12513XAE2	5,885,248	5,752,983	(132,265)	26,080	\$5,779,063	Aaa	0.37
COMM 05-C6 A5A	126171AF4	837,630	822,628	(15,002)	3,509	\$826,137	Aaa	0.03
GMAC 04-C2 A4	361849F56	168,560	166,182	(2,378)	768	\$166,950	AAA	0.03
JPMCC 04-LN2 A2	46625YCV3	1,069,740	1,049,642	(20,099)	(3,174)	\$1,046,468	AAA	0.37
JPMCC 06-CB14 A	46625YZX4	7,991,926	7,775,470	(216,456)	35,184	\$7,810,654	Aaa	0.43
JPMCC 06-LDP7A4	46628FAF8	7,920,771	7,697,138	(223,634)	73,838	\$7,770,975	Aaa	0.72
JPMCC 06-LDP6	46625YP64	4,698,873	4,594,570	(104,304)	20,664	\$4,615,233	Aaa	0.58
WBCMT 05 C21 A4	9297667G2	4,553,167	4,449,358	(103,809)	20,120	\$4,469,479	Aaa	0.08
WBCMT 06-C26 A3	92977RAD8	17,497,547	16,962,584	(534,963)	82,641	\$17,045,225	Aaa	0.82
subtotal		\$50,623,463	\$49,270,554	(\$1,352,909)	\$259,630	\$49,530,183	AAA	0.58
Other MBS Bonds FR - 3.1%								
CSMC 06-C2 A3	22545BAC5	7,978,932	7,800,108	(178,824)	37,541	\$7,837,649	Aaa	0.52
subtotal		\$7,978,932	\$7,800,108	(\$178,824)	\$37,541	\$7,837,649	AAA	0.52
Cash, MMFs, & Investment Pools - 18.31%								
Bank Accts (DDA & MMA)	N/A	6,726,605	6,726,605	0	0	\$6,726,605	N/A	0.00
Money Market Funds	N/A	6,594,056	6,594,056	0	1,390	\$6,595,447	AAA	0.00
FL FIT (Core Fund) ²	140021420	32,338,621	32,114,690	(223,931)	0	\$32,114,690	NR	(0.20)
SBA Fund B ¹	251361B	103,601	38,381	(65,220)	0	\$38,381	NR	0.04
subtotal		\$45,762,884	\$45,473,732	(\$289,152)	\$1,390	\$45,475,123	BBB	(0.14)
Managed Investment Program		\$250,755,662	\$247,957,103.59	(\$2,798,558)	\$443,507	\$248,400,610	AAA-	1.07

¹All of the District's original principal has been returned. Value shown is an estimate of undistributed earnings

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

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

-1.13%

	Quarter End 6/30/15	Y-T-D 6/30/15	Prior Year 6/30/14
Average Invested Value of Managed Investment Portfolio	\$367,204,450	\$415,617,146	\$439,617,188
Managed Investment Portfolio Yield			
Total Managed Investment Portfolio Earnings	\$253,006	\$3,935,244	(\$1,283,025)
<i>Managed Investment Portfolio Annualized Rate Of Return</i>	0.28%	0.95%	-0.29%
Benchmark 1 - Weighted Average of Comparable Indices			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/15	340,350	340,350	3,086,906
Quarter Ended 3/31/15		820,181	
Quarter Ended 12/31/14		90,826	
Quarter Ended 9/30/14		44,226	
Total Pro Forma Benchmark 1 Earnings	\$340,350	\$1,295,583	\$3,086,906
<i>Benchmark 1 Annualized Rate Of Return</i>	0.37%	0.31%	0.70%
Benchmark 2 - Florida Prime (SBA LGIP)			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/15	184,866	184,866	436,456
Quarter Ended 3/31/15		198,337	
Quarter Ended 12/31/14		83,509	
Quarter Ended 9/30/14		88,092	
Total Pro Forma Benchmark 2 Earnings	\$184,866	\$554,804	\$436,456
<i>Benchmark 2 Annualized Rate Of Return</i>	0.20%	0.18%	0.10%
Earnings Comparison			
<i>Annualized Rate of Return</i>			
Managed Investment Portfolio vs. Benchmark 1	-0.09%	0.64%	-0.99%
Managed Investment Portfolio vs. Benchmark 2	0.08%	0.77%	-0.39%
<i>Dollar Earnings</i>			
Managed Investment Portfolio vs. Benchmark 1	(\$87,344)	\$2,639,661	(\$4,369,932)
Managed Investment Portfolio vs. Benchmark 2	\$68,140	\$3,380,440	(\$1,719,482)

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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, 2015	<u>Quarter End</u>	<u>Fiscal Y-T-D</u>	<u>Prior Fiscal Year</u>
Realized Gains/Losses	10,028	(4,736,553)	(2,152,924)
MV Adjustment for Period	(1,401,098)	2,974,586	(7,124,632)
Net Incr/(Decr) in fair value of investments	(1,391,071)	(1,761,967)	(9,277,556)

Note 3 – Cumulative Return Over the SBA

For the fiscal year-to-date, the Managed Investment Portfolio’s (MIP) earnings were over the State Board of Administration’s (SBA) local government investment pool by \$3,380,440. Since August 1992, the MIP’s cumulative earnings were over the SBA by \$34,432,438.

Note 4 – Effect of Unrealized Gains and Losses on Income

The district’s MIP currently has an unrealized loss of \$2,798,558. This figure has been netted against interest income. If the district’s bonds were priced at par (100) as of June 30, 2015, the district’s cumulative earnings over the SBA would be \$37,230,996.

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 \$121,015,753 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
Exempt	\$114,421,697	
Money Market Fund	\$6,594,056	AAA
Other Pooled Investments	\$32,114,690	NR
Not Rated	\$38,381	NR
Corporate ABS	\$34,217,373	AAA
Corporate ABS FR	\$3,500,245	AAA
Other MBS Bonds	\$49,270,554	AAA
Other MBS Bonds FR	\$7,800,108	AAA
Portfolio	\$247,957,104	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	18.34%	\$45,473,732	Exempt
UST	24.23%	60,079,650	United States Treasury
FHLMC	9.33%	23,140,892	Federal Home Loan Mgte Corp
FNMA	5.74%	14,234,164	Federal National Mtge Assoc
HART	6.33%	15,696,457	Hyundai Auto Receivables Trust
SDART	5.64%	13,981,962	Santander Drive Auto Rec Trust
JPMCC	8.52%	21,116,819	JP Morgan Chase Comm Mortgage
WBCMT	8.64%	21,411,942	Wachovia Bank Comm Mortgage Tr

Securities Where Issuer Represents More Than 5% of Portfolio

Issuer	CUSIP	Market Value	Description
NOVA	06417KTRO	24,986,500.00	BNSPP 0% CP
WBCMT	92977RAD8	17,209,723.72	WBCMT 06-C26 A3
FHLMC	3137BERG1	16,325,012.85	FHR 4399 CB
UST	912828RU6	15,102,000.00	UST 0.875%
UST	912828RX0	15,102,000.00	UST 0 7/8%
FNMA	313588HH1	14,997,900.00	FNMA DN 6/25/15
UST	912828UE8	14,971,950.00	UST 0 3/4%
UST	912828UA6	14,936,700.00	UST 0.625%
FNMA	3136A7RE4	14,072,161.96	FNR 12-90 DA
WBCMT	9297667G2	9,847,761.22	WBCMT 05 C21 A4
JPMCC	46628FAF8	8,431,728.00	JPMCC 06-LDP7A4
JPMCC	46625YZX4	7,925,261.51	JPMCC 06-CB14 A
JPMCC	46625YP64	6,141,033.55	JPMCC 06-LDP6
FHLMC	3137AD2V8	5,981,332.84	FHR 3893 DJ
FHLMC	3137AQNA2	4,153,260.12	FHR 4039 JA
FNMA	31396X3Q5	1,963,436.85	FNR 07-114 A6
JPMCC	46625YCV3	1,319,499.56	JPMCC 04-LN2 A2

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 0.35 years, or 4.15months.

Floating/Adjustable Interest Rate Risk

The district currently has \$55,896,793 invested in securities with floating or adjustable interest rate risk. \$55,896,793 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 #N/A

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 5.36 years. The duration on the District's ABS/MBS bonds ranges from 0 years to 5.36 years.

Interest Rate Risk

Investment Category	Market Value	Mod. Dur.
Exempt	\$13,320,662	0.00
Investment Pool	\$32,153,071	-0.20
Money Market Portfolio	\$60,079,650	1.94
MBS Agency CMOs	\$36,636,731	2.03
MBS Agency ARMs/FR	\$10,978,711	3.14
Corporate ABS	\$34,217,373	0.44
Corporate ABS FR	\$3,500,245	0.04
Other MBS Bonds	\$49,270,554	0.58
Other MBS Bonds FR	\$7,800,108	0.52
Portfolio	\$247,957,104	1.07