

May 20, 2014

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 March 31, 2014

**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 March 31, 2014, totaled a negative \$458,988 after recognizing a market value adjustment of a negative \$3,228,029. For the quarter, the weighted average index (WAI) (benchmark 1) outperformed the MIP by \$1,498,661. For the quarter, the State Board of Administration (benchmark 2) outperformed the MIP by \$558,827. The MIP earnings have exceeded the potential State Board of Administration by \$28,564,127 since inception (as noted in footnote 3). The district's MIP currently has an unrealized market loss of \$10,332,144. 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 March 31, 2014, the district's cumulative return over the SBA would be \$38,896,272.

During the March quarter the concern in the financial markets over the ending of Quantitative Easing started to abate. During the months of January and February, the District realized positive returns on its investment portfolio, before those gains were reversed in March. Staff expects this positive trend to continue.

**DATA SOURCE:**

Kevin W. Smith, CPA, Associate Superintendent, Finance and Business Services  
Andrew S. Jacobsen, Manager, Cash & Investments  
Investment Oversight Committee (5/15/14)

**SUBMITTED BY:**

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

# Quarterly Investment Report

March 31, 2014

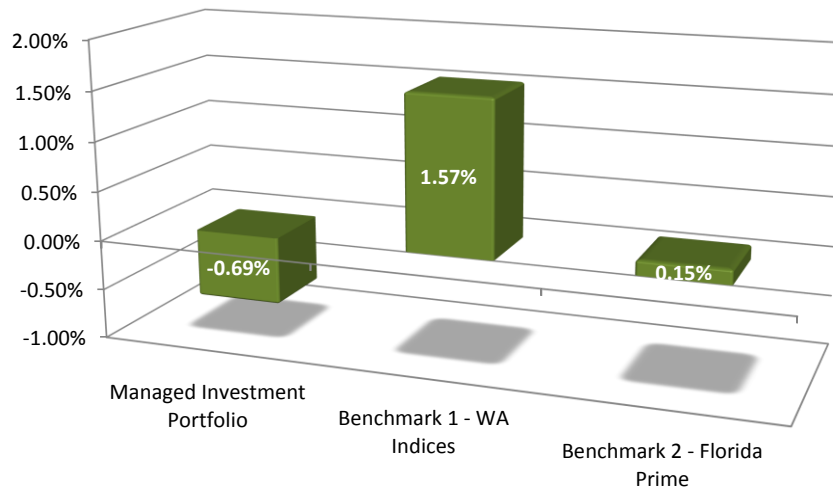


prepared by Cash Management Department

## Table of Contents

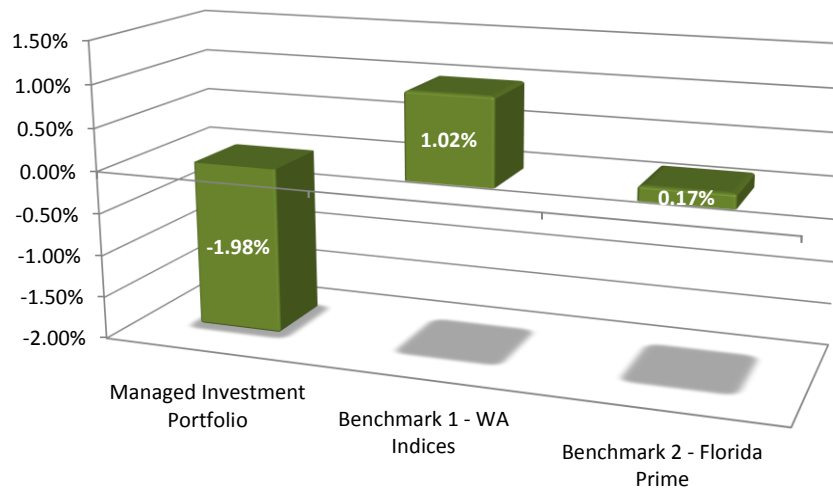
<b>Section</b>	<b>Page</b>
<b>Yield Comparison Charts</b>	<b>1</b>
<b>Portfolio Composition Charts</b>	<b>2</b>
<b>Asset Value and Income Statement</b>	<b>3</b>
<b>Total Investment Value</b>	<b>4</b>
<b>Yield Comparison Analysis</b>	<b>7</b>
<b>Notes to Quarterly Report</b>	<b>8</b>
<b>Risk Disclosures</b>	<b>9</b>

### Yield Comparison Current Quarter



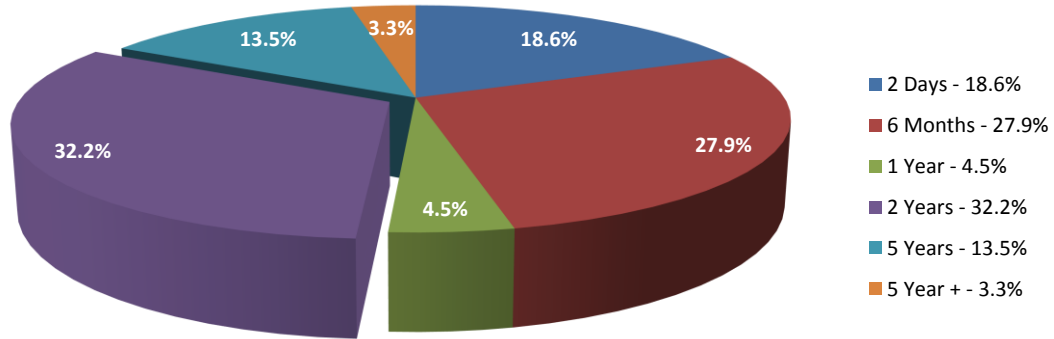
The yield on the district's managed investment program was a negative 0.69% for the quarter ended March 31, 2014.

### Yield Comparison Year to Date



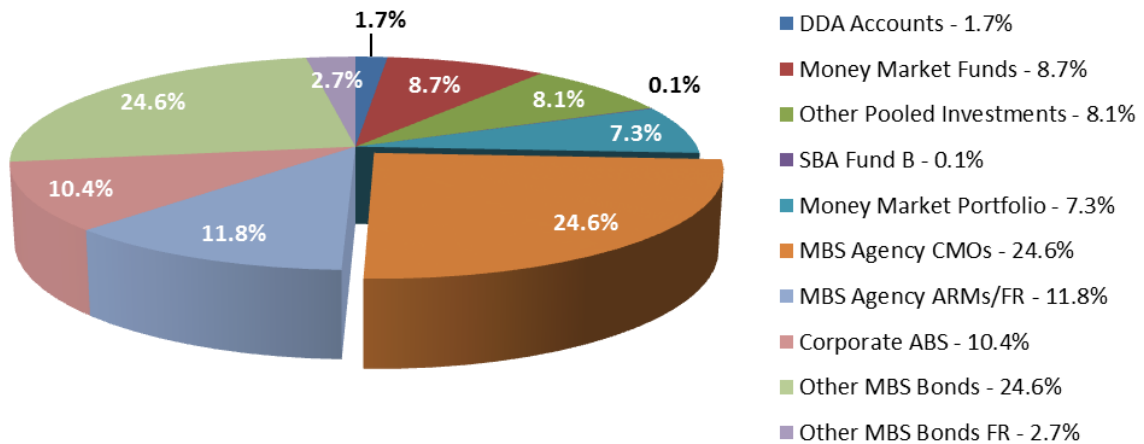
The yield on the district's managed investment program was a negative 1.98% for the year-to-date March 31, 2014.

### Investments by Duration March 31, 2014



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

### Investments by Type March 31, 2014



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 24.6% of the portfolio.

<b>Portfolio Assets</b>	<b>3/31/14</b>	<b>6/30/13</b>	
Investment in U.S. Treasury and Agency Securities:			
Investments (securities at market value)	\$363,018,415		\$249,912,713
Other Pooled Investments	36,147,408		26,319,979
State Board of Administration Fund B	430,746		589,726
Accrued Interest Receivable and Prepaid Interest	818,720		621,244
<b>Total U.S. Treasury and Agency Securities</b>	<b>\$400,415,289</b>		<b>\$277,443,662</b>
Cash Investments			
Money market funds	38,943,256		35,660,687
Bank accounts (DDA & MMA)	7,760,737		4,432,255
<b>Total Cash Investments</b>	<b>\$46,703,994</b>		<b>\$40,092,942</b>
<b>Total Managed Investment Portfolio Value</b>	<b>\$447,119,282</b>		<b>\$317,536,604</b>
	<b>Quarter End</b>	<b>Y-T-D</b>	<b>Prior Year</b>
	<b>3/31/14</b>	<b>3/31/14</b>	<b>6/30/13</b>
<b>Portfolio Income</b>			
Interest Earned			
U.S. Government Securities & Other Pooled Accounts	2,754,631	5,573,168	7,913,641
Money Market Funds	4,529	15,147	28,906
Bank Accounts	9,881	25,359	39,667
<b>Total Interest Earned</b>	<b>2,769,040</b>	<b>5,613,673</b>	<b>7,982,215</b>
Net increase/(decrease) in fair value of investments - Note 2	(3,228,029)	(9,491,171)	(9,105,286)
<b>Total Managed Investment Portfolio Earnings</b>	<b>(\$458,988)</b>	<b>(\$3,877,498)</b>	<b>(\$1,123,071)</b>
	<b>Quarter End</b>	<b>Y-T-D</b>	<b>Prior Year</b>
	<b>3/31/14</b>	<b>3/31/14</b>	<b>6/30/13</b>
<b>Yield Comparison - Page 5</b>			
<i>Managed Investment Portfolio</i>			
Annualized Rate of Return	<b>-0.69%</b>	<b>-1.98%</b>	<b>-0.36%</b>
<i>Benchmark 1 - Weighted Average of Comparable Indices</i>			
Annualized Rate of Return	1.57%	1.02%	<b>-0.05%</b>
<b>Managed Investment Portfolio Yield vs. Benchmark 1</b>	<b>-2.26%</b>	<b>-3.00%</b>	<b>-0.31%</b>
<i>Benchmark 2 - Florida Prime MMF (SBA LGIP)</i>			
Annualized Rate of Return	0.15%	0.17%	0.24%
<b>Managed Investment Portfolio Yield vs. Benchmark 2</b>	<b>-0.84%</b>	<b>-2.15%</b>	<b>-0.60%</b>

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
<b>Money Market Portfolio - 7.3%</b>								
ANGLES 0% CP	0347M3DR2	9,998,220	9,998,220	0	0	\$9,998,220	A/P-1	0.07
CMSERA 0%	2063C1D31	7,499,926	7,499,926	0	0	\$7,499,926	A/P-1	0.01
EBURY 0% CP	27873KDR0	9,998,418	9,998,418	0	0	\$9,998,418	A/P-1	0.07
US Treasury	912828LK4	5,047,685	5,047,685	0	10,326	\$5,058,011	AAA	0.42
subtotal		\$32,544,248	\$32,544,248	\$0	\$10,326	\$32,554,574	AAA	0.11
<b>Corporate ABS - 10.4%</b>								
CHAIT 12-A3 A3	161571FJ8	20,090,013	20,079,000	(11,013)	7,022	\$20,086,022	AAA	1.20
SDART 10-A A4	80282FAG2	22,007,290	21,870,534	(136,756)	23,153	\$21,893,687	AAA	0.43
SDART 12-6 A3	80283CAC7	4,385,761	4,381,664	(4,096)	1,207	\$4,382,871	AAA	0.24
subtotal		\$46,483,064	\$46,331,198	(\$151,866)	\$31,383	\$46,362,580	AAA	0.75
<b>MBS Agency CMOs - 24.59%</b>								
FHR 3986 TC	3137AKBY6	6,242,640	6,151,038	(91,602)	10,092	\$6,161,131	AAA	2.67
FHR 4039 JA	3137AQNA2	4,575,705	4,310,658	(265,047)	5,734	\$4,316,392	AAA	5.57
FHR 4165-CA	3137AYQY0	8,519,546	8,255,157	(264,389)	8,822	\$8,263,979	AAA	3.06
FNR 12-90 DA	3136A7RE4	17,161,996	14,864,124	(2,297,872)	21,220	\$14,885,345	AAA	2.29
FNR 12-138 MA	3136AAFH3	14,596,543	13,341,732	(1,254,812)	11,946	\$13,353,678	AAA	1.69
FNR 12-117 DA	3136A8P20	21,797,217	18,828,693	(2,968,525)	26,993	\$18,855,686	AAA	1.26
FNR 04-8 GD	31393XDU8	7,944,129	7,784,508	(159,621)	28,389	\$7,812,897	AAA	0.92
FHR 4283 EC	3137B6GM7	18,283,371	18,238,191	(45,180)	18,939	\$18,257,130	AAA	1.23
GNR 08-38 PS	38375QGZ6	733,573	709,438	(24,134)	2,047	\$711,486	AAA	0.83
GNR 10-161 AB	38376GZA1	9,938,590	9,797,774	(140,816)	16,990	\$9,814,763	AAA	1.51
GNR 09-99 A	38376GBS8	1,109,844	1,082,543	(27,301)	3,057	\$1,085,600	AAA	0.04
GNR 09-71 A	38376GAG5	165,146	159,967	(5,179)	440	\$160,408	AAA	0.04
GNR 10-52 AE	38376GGU8	317,672	306,800	(10,872)	1,035	\$307,835	AAA	0.58
GNR 13-26 GA	38378JBV3	1,537,898	1,536,856	(1,042)	2,219	\$1,539,075	AAA	2.07
GNR 04-10 D	38373MKT6	1,741,123	1,698,224	(42,899)	7,302	\$1,705,526	AAA	0.70
GNR 10-118 b	38376GUR9	1,542,437	1,525,554	(16,883)	3,559	\$1,529,113	AAA	0.34
GNR 10-167 KW	38377NUW2	1,183,262	1,173,875	(9,387)	4,726	\$1,178,602	AAA	0.82
subtotal		\$117,390,693	\$109,765,133	(\$7,625,560)	\$173,511	\$109,938,644	AAA	1.80
<b>MBS Agency ARMs/FR - 11.82%</b>								

Pinellas County Schools  
Quarterly Investment Report

March 31, 2014  
Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
FNR 07-114 A6	31396X3Q5	1,995,000	1,994,880	(120)	56	\$1,994,936	AAA	2.99
FN AL4204	3138ELU68	13,240,828	13,148,158	(92,670)	32,203	\$13,180,361	AAA	1.94
G2 82577	36225E2K7	3,300,179	3,290,741	(9,438)	7,839	\$3,298,580	AAA	5.07
G2 82518	36225EYQ9	18,387,417	18,405,424	18,007	50,744	\$18,456,168	AAA	3.46
G2 82579	36225E2M3	5,926,875	5,951,326	24,451	16,376	\$5,967,702	AAA	4.09
G2 82462	36225EWY4	2,702,384	2,707,634	5,250	7,507	\$2,715,141	AAA	3.84
G2 82539	36225EZD7	3,492,670	3,463,807	(28,863)	10,291	\$3,474,098	AAA	5.62
G2 82558	36225EZY1	3,762,171	3,731,435	(30,736)	11,085	\$3,742,519	AAA	11.78
subtotal		\$52,807,523	\$52,693,404	(\$114,119)	\$136,100	\$52,829,504	AAA	3.99
<b>Other MBS Bonds - 24.64%</b>								
CSFB 04-C2 B	22541SHU5	3,746,973	3,711,766	(35,207)	16,974	\$3,728,740	AAA	0.12
CSMC 07-C5 A3	22546BAD2	8,177,543	7,757,028	(420,516)	36,392	\$7,793,419	AAA	0.42
GCCFC 05-GG5A41	396789LJ6	15,461,946	15,270,409	(191,537)	66,661	\$15,337,070	AAA	0.36
GMAC 04-C2 A4	361849F56	10,840,955	10,790,874	(50,081)	47,180	\$10,838,055	AAA	0.27
GSMS 04-GG2 A6	36228CTH6	1,068,481	1,058,602	(9,878)	4,649	\$1,063,251	AAA	0.17
JPMCC 04-LN2 A2	46625YCV3	19,340,897	19,040,619	(300,279)	72,896	\$19,113,515	AAA	0.19
MLMT 04-BPC1 A5	59022HEX6	4,676,855	4,615,382	(61,474)	18,505	\$4,633,887	AAA	0.36
WBGMT 06-C24 AP	92976BFQ0	801,542	763,032	(38,510)	3,542	\$766,574	AAA	0.11
LBUBS 05-C7 A4	52108MAF0	21,232,058	20,896,600	(335,458)	57,744	\$20,954,344	AAA	1.14
LBUBS 05-C3 A5	52108H5X8	8,543,857	8,387,316	(156,541)	20,480	\$8,407,796	AAA	0.94
MSC 05-T19 A4A	61745M5G4	17,742,212	17,468,518	(273,694)	68,424	\$17,536,942	AAA	1.05
subtotal		\$111,633,319	\$109,760,146	(\$1,873,173)	\$413,447	\$110,173,594	AAA	0.62
<b>Other MBS Bonds FR - 2.68%</b>								
BACM 05-6 A4	05947U4D7	6,111,478	6,032,125	(79,353)	24,678	\$6,056,804	AAA	1.35
LBUBS 08-C1 AAB	50180LAB6	5,990,802	5,892,159	(98,642)	28,829	\$5,920,989	AAA	1.09
subtotal		\$12,102,280	\$11,924,285	(\$177,995)	\$53,508	\$11,977,792	AAA	1.22
<b>Cash, MMFs, &amp; Investment Pools - 18.63%</b>								
Bank Accts (DDA & MMA)	N/A	7,760,737	7,760,737	0	0	\$7,760,737	N/A	0.00
Money Market Funds	N/A	38,943,256	38,943,256	0	446	\$38,943,702	AAAm	0.00
Core Fund	1149200011	36,565,590	36,147,408	(418,182)	0	\$36,147,408	Aaa-bf	(0.83)
SBA Fund B	251361B	401,995	430,746	28,751	0	\$430,746	NR	4.04



Pinellas County Schools  
 Quarterly Investment Report

March 31, 2014  
 Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
subtotal		\$83,671,579	\$83,282,148	(\$389,431)	\$446	\$83,282,593	AAA-	(0.34)
Managed Investment Program		\$456,632,706	\$446,300,562	(\$10,332,144)	\$818,720	\$447,119,282	AAA-	1.12
Unrealized Gain/Loss as a percent of total market value:				-2.32%				

	<b>Quarter End 3/31/14</b>	<b>Y-T-D 3/31/14</b>	<b>Prior Year 6/30/13</b>
Average Invested Value of Managed Investment Portfolio	\$268,931,223	\$261,348,839	\$315,979,285
<b>Managed Investment Portfolio Yield</b>			
Total Managed Investment Portfolio Earnings	( <b>\$458,988</b> )	( <b>\$3,877,498</b> )	( <b>\$1,123,071</b> )
<i>Managed Investment Portfolio Annualized Rate Of Return</i>	<b>-0.69%</b>	<b>-1.98%</b>	<b>-0.36%</b>
<b>Benchmark 1 - Weighted Average of Comparable Indices</b>			
Pro Forma Interest Earnings:			
Quarter Ended 9/30/13		722,151	( <b>169,324</b> )
Quarter Ended 12/31/13		234,471	
Quarter Ended 3/31/14	1,039,672	1,039,672	
Quarter Ended 6/30/14			
Total Pro Forma Benchmark 1 Earnings	\$1,039,672	\$1,996,294	( <b>\$169,324</b> )
<i>Benchmark 1 Annualized Rate Of Return</i>	<b>1.57%</b>	<b>1.02%</b>	<b>-0.05%</b>
<b>Benchmark 2 - Florida Prime (SBA LGIP)</b>			
Pro Forma Interest Earnings:			
Quarter Ended 9/30/13		115,133	756,840
Quarter Ended 12/31/13		114,882	
Quarter Ended 3/31/14	99,839	99,839	
Quarter Ended 6/30/14			
Total Pro Forma Benchmark 2 Earnings	\$99,839	\$329,854	\$756,840
<i>Benchmark 2 Annualized Rate Of Return</i>	<b>0.15%</b>	<b>0.17%</b>	<b>0.24%</b>
<b>Earnings Comparison</b>			
<i>Annualized Rate of Return</i>			
Managed Investment Portfolio vs. Benchmark 1	<b>-2.26%</b>	<b>-3.00%</b>	<b>-0.31%</b>
Managed Investment Portfolio vs. Benchmark 2	<b>-0.84%</b>	<b>-2.15%</b>	<b>-0.60%</b>
<i>Dollar Earnings</i>			
Managed Investment Portfolio vs. Benchmark 1	( <b>\$1,498,661</b> )	( <b>\$5,873,792</b> )	( <b>\$953,747</b> )
Managed Investment Portfolio vs. Benchmark 2	( <b>\$558,827</b> )	( <b>\$4,207,352</b> )	( <b>\$1,879,911</b> )

**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.

<b>March 31, 2014</b>	<u>Quarter End</u>	<u>Fiscal Y-T-D</u>	<u>Prior Fiscal Year</u>
Realized Gains/Losses	0	(1,757,108)	(2,107,717)
MV Adjustment for Period	<u>(3,228,029)</u>	<u>(7,734,063)</u>	<u>(6,997,568)</u>
Net Incr/(Decr) in fair value of investments	<u>(3,228,029)</u>	<u>(9,491,171)</u>	<u>(9,105,286)</u>

**Note 3 – Cumulative Return Over the SBA**

For the fiscal year-to-date, the Managed Investment Portfolio’s (MIP) earnings were under the State Board of Administration’s (SBA) local government investment pool by -\$4,207,352. Since August 1992, the MIP’s cumulative earnings were over the SBA by \$28,564,127.

**Note 4 – Effect of Unrealized Gains and Losses on Income**

The district’s MIP currently has an unrealized loss of \$10,332,144. This figure has been netted against interest income. If the district’s bonds were priced at par (100) as of March 31, 2014, the district’s cumulative earnings over the SBA would be \$38,896,272.

**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 \$214,210,216 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	\$175,266,959	
Money Market Fund	\$38,943,256	AAA
Other Pooled Investments	\$36,147,408	AAA
Not Rated	\$430,746	NR
Money Market Portfolio	\$27,496,563	AAA
Corporate ABS	\$46,331,198	AAA
Other MBS Bonds	\$109,760,146	AAA
Other MBS Bonds FR	\$11,924,285	AAA
<b>Portfolio</b>	<b>\$446,300,562</b>	<b>AAA-</b>

### 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	18.66%	\$83,282,148	Exempt
FNMA	19.76%	88,200,286	Federal National Mtge Assoc
GNMA	12.44%	55,541,398	Government National Mtge Assoc
SDART	5.88%	26,252,198	Santander Drive Auto Rec Trust
LBUBS	7.88%	35,176,076	LB UBS Commercial Mortgage Tru

**Securities Where Issuer Represents More Than 5% of Portfolio**

Issuer	CUSIP	Market Value	Description
SDART	80282FAG2	21,870,533.56	SDART 10-A A4
LBUBS	52108MAF0	20,896,600.00	LBUBS 05-C7 A4
FNMA	3136A8P20	18,828,692.81	FNR 12-117 DA
GNMA	36225EYQ9	18,405,424.12	G2 82518
FNMA	3137B6GM7	18,238,191.06	FHR 4283 EC
FNMA	3136A7RE4	14,864,124.30	FNR 12-90 DA
FNMA	3136AAFH3	13,341,731.82	FNR 12-138 MA
FNMA	3138ELU68	13,148,158.01	FN AL4204
GNMA	38376GZA1	9,797,773.85	GNR 10-161 AB
LBUBS	52108H5X8	8,387,316.40	LBUBS 05-C3 A5
FNMA	31393XDU8	7,784,508.00	FNR 04-8 GD
GNMA	36225E2M3	5,951,326.06	G2 82579
LBUBS	50180LAB6	5,892,159.49	LBUBS 08-C1 AAB
SDART	80283CAC7	4,381,664.40	SDART 12-6 A3
GNMA	36225EZY1	3,731,434.68	G2 82558
GNMA	36225EZD7	3,463,806.86	G2 82539
GNMA	36225E2K7	3,290,740.77	G2 82577
GNMA	36225EWY4	2,707,633.90	G2 82462
FNMA	31396X3Q5	1,994,880.00	FNR 07-114 A6
GNMA	38373MKT6	1,698,223.98	GNR 04-10 D
GNMA	38378JBV3	1,536,855.93	GNR 13-26 GA
GNMA	38376GUR9	1,525,554.09	GNR 10-118 b
GNMA	38377NUW2	1,173,875.12	GNR 10-167 KW
GNMA	38376GBS8	1,082,543.15	GNR 09-99 A
GNMA	38375QGZ6	709,438.39	GNR 08-38 PS
GNMA	38376GGU8	306,799.97	GNR 10-52 AE
GNMA	38376GAG5	159,967.15	GNR 09-71 A

**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 1.12 years, or 13.42 months.

### **Floating/Adjustable Interest Rate Risk**

The district currently has \$54,826,830 invested in securities with floating or adjustable interest rate risk. \$54,826,830 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 0.33% to 6.14%.

### **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 negative 0.83 years to 11.78 years. The duration on the District's ABS/MBS bonds ranges from negative 0 years to 11.78 years.

**Interest Rate Risk**

<b>Investment Category</b>	<b>Market Value</b>	<b>Mod. Dur.</b>
Exempt	\$46,703,994	0.00
Investment Pool	36,578,154	-0.77
Money Market Portfolio	32,544,248	0.11
MBS Agency CMOs	109,765,133	1.80
MBS Agency ARMs/FR	52,693,404	3.99
Corporate ABS	46,331,198	0.75
Other MBS Bonds	109,760,146	0.62
Other MBS Bonds FR	11,924,285	1.22
<b>Portfolio</b>	<b>\$446,300,562</b>	<b>1.12</b>