

January 12, 2016

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 September 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 Investment Portfolio Financial Statements for the Quarter Ended September 30, 2015
2. Do not adopt the Investment Portfolio Financial Statements for the Quarter Ended September 30, 2015

RECOMMENDATION:

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 September 30, 2015, totaled \$293,615 after recognizing a market value adjustment of \$43,085. For the quarter, the MIP outperformed the weighted average index (WAI) (benchmark 1) by \$37,566. For the quarter, the MIP outperformed the State Board of Administration (benchmark 2) by \$81,206. The MIP earnings have exceeded the potential State Board of Administration by \$34,613,643 since inception (as noted in footnote 3). The district's MIP currently has an unrealized market loss of \$1,816,788. 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 September 30, 2015, the district's cumulative return over the SBA would be \$36,430,431.

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

September 30, 2015

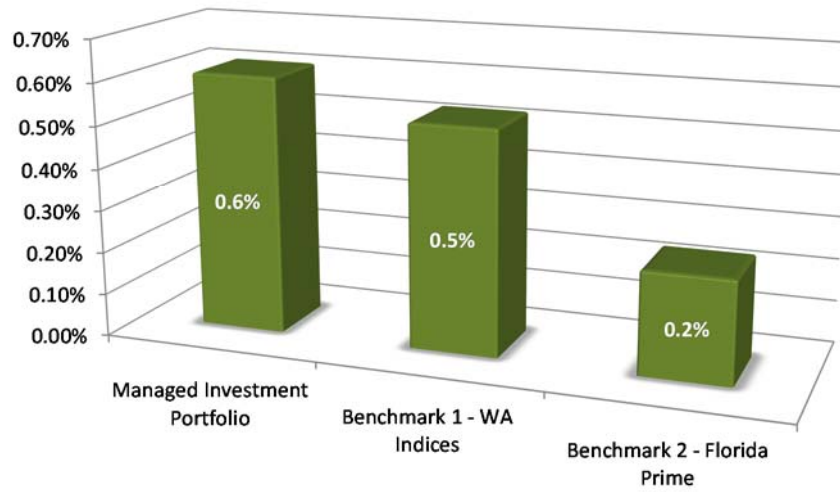


prepared by Cash Management Department

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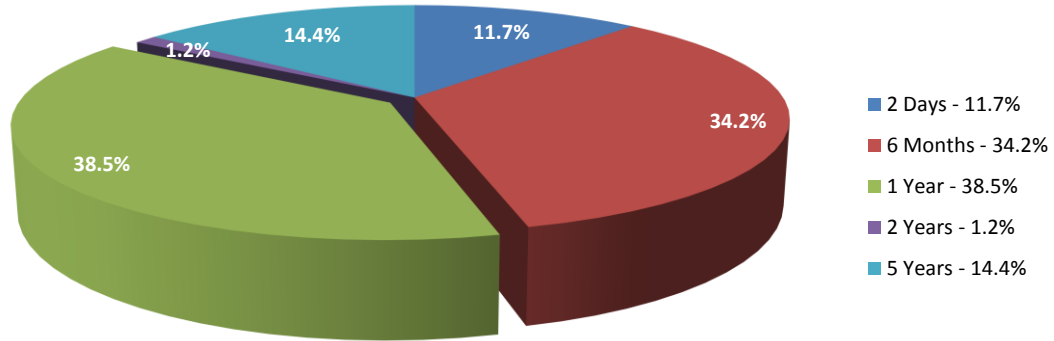
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Yield Comparison Current Quarter



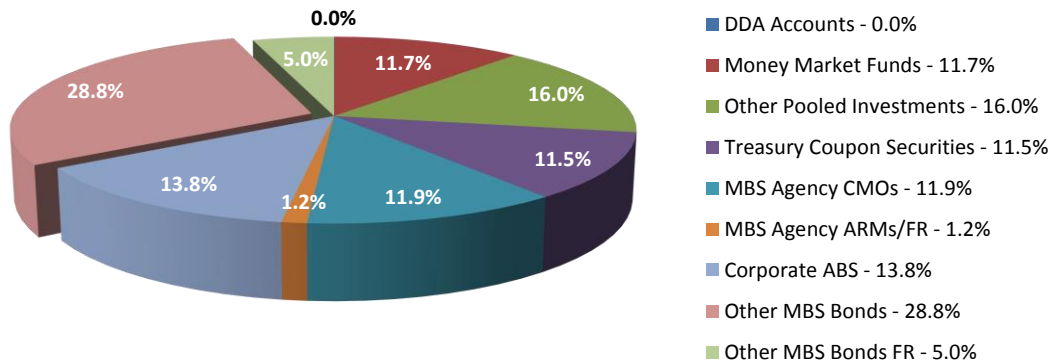
The yield on the district's managed investment program was 0.6% for the quarter ended September 30, 2015.

Investments by Duration September 30, 2015



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 September 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	9/30/15			6/30/15
Investment in U.S. Treasury and Agency Securities:				
Investments (securities at market value)	\$94,054,145			\$202,483,371
Other Pooled Investments	20,893,161			32,114,690
State Board of Administration Fund B	0			38,381
Accrued Interest Receivable and Prepaid Interest	287,628			443,507
Total U.S. Treasury and Agency Securities	\$115,234,934			\$235,079,949
Cash Investments				
Money market funds	15,223,733			6,594,056
Bank accounts (DDA & MMA)	47,522			6,726,605
Total Cash Investments	\$15,271,256			\$13,320,662
Total Managed Investment Portfolio Value	\$130,506,189			\$248,400,610
	Quarter End	Y-T-D	Prior Year	
	9/30/15	9/30/15	6/30/15	
Portfolio Income				
Interest Earned				
U.S. Government Securities & Other Pooled Accounts	1,157,565	1,157,565	5,641,219	
Money Market Funds	1,168	1,168	25,941	
Bank Accounts	5,596	5,596	30,051	
Total Interest Earned	1,164,328	1,164,328	5,697,211	
Net increase/(decrease) in fair value of investments - Note 2	(870,713)	(870,713)	(1,761,967)	
Total Managed Investment Portfolio Earnings	\$293,615	\$293,615	\$3,935,244	
	Quarter End	Y-T-D	Prior Year	
	9/30/15	9/30/15	6/30/15	
Yield Comparison - Page 5				
<i>Managed Investment Portfolio</i>				
Annualized Rate of Return	0.61%	0.61%	0.95%	
<i>Benchmark 1 - Weighted Average of Comparable Indices</i>				
Annualized Rate of Return	0.53%	0.53%	0.31%	
Managed Investment Portfolio Yield vs. Benchmark 1	0.08%	0.08%	0.64%	
<i>Benchmark 2 - Florida Prime MMF (SBA LGIP)</i>				
Annualized Rate of Return	0.24%	0.24%	0.18%	
Managed Investment Portfolio Yield vs. Benchmark 2	0.37%	0.37%	0.77%	

Pinellas County Schools
Quarterly Investment Report

September 30, 2015
Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
Treasury Coupon Securities - 11.5%								
UST 0 3/4%	912828UE8	14,877,232	15,006,300	129,068	28,431	\$15,034,731	AAA	2.22
subtotal		\$14,877,232	\$15,006,300	\$129,068	\$28,431	\$15,034,731	AAA	2.22
MBS Agency CMOs - 11.9%								
FHR 4039 JA	3137AQNA2	3,888,092	3,791,270	(96,822)	4,872	\$3,796,142	AAA	4.58
FHR 4399 CB	3137BERG1	11,792,454	11,712,166	(80,289)	24,005	\$11,736,171	AAA	0.97
GNR 08-38 PS	38375QGZ6	8,383	8,016	(366)	23	\$8,040	AAA	0.06
GNR 10-167 KW	38377NUW2	24,173	23,345	(828)	97	\$23,442	AAA	0.24
subtotal		\$15,713,102	\$15,534,797	(\$178,305)	\$28,997	\$15,563,794	AAA	1.85
MBS Agency ARMs/FR - 1.2%								
FNR 07-114 A6	31396X3Q5	1,530,580	1,525,992	(4,588)	214	\$1,526,206	AAA	1.90
subtotal		\$1,530,580	\$1,525,992	(\$4,588)	\$214	\$1,526,206	AAA	1.90
Corporate ABS - 13.8%								
HART 12-A D	44890GAG0	15,762,577	15,636,868	(125,709)	18,001	\$15,654,869	Aaa	0.53
SDART 13-A A3	80283JAC2	2,320,186	2,315,775	(4,411)	1,050	\$2,316,824	Aaa	0.11
subtotal		\$18,082,762	\$17,952,643	(\$130,120)	\$19,051	\$17,971,693	AAA	0.48
Other MBS Bonds - 28.8%								
CD 06-CD2 A4	12513XAE2	3,916,656	3,803,813	(112,842)	17,381	\$3,821,194	Aaa	0.08
JPMCC 04-LN2 A2	46625YCV3	895,252	876,906	(18,346)	3,739	\$880,645	AAA	0.28
JPMCC 06-CB14 A	46625YZX4	5,829,638	5,640,336	(189,302)	25,664	\$5,666,001	Aaa	0.06
JPMCC 06-LDP7A4	46628FAF8	6,098,254	5,881,926	(216,328)	29,452	\$5,911,378	Aaa	0.53
JPMCC 06-LDP6	46625YP64	4,570,425	4,434,876	(135,549)	19,539	\$4,454,415	Aaa	0.31
WBCMT 06-C26 A3	92977RAD8	17,497,547	16,853,532	(644,015)	82,641	\$16,936,173	Aaa	0.59
subtotal		\$38,807,772	\$37,491,389	(\$1,316,382)	\$178,417	\$37,669,806	AAA	0.41
Other MBS Bonds FR - 5.0%								
CSMC 06-C2 A3	22545BAC5	6,754,673	6,543,024	(211,648)	31,754	\$6,574,779	Aaa	0.28
subtotal		\$6,754,673	\$6,543,024	(\$211,648)	\$31,754	\$6,574,779	AAA	0.28

Pinellas County Schools
 Quarterly Investment Report

September 30, 2015
 Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
Cash, MMFs, & Investment Pools - 27.71%								
Bank Accts (DDA & MMA)	N/A	47,522	47,522	0	0	\$47,522	N/A	0.00
Money Market Funds	N/A	15,223,733	15,223,733	0	764	\$15,224,498	AAAm	0.00
FL FIT (Core Fund) ¹	140021420	20,997,973	20,893,161	(104,812)	0	\$20,893,161	AA	0.24
subtotal		\$36,269,228	\$36,164,417	(\$104,812)	\$764	\$36,165,181	AA+	0.14
Managed Investment Program		\$132,035,350	\$130,218,561.78	(\$1,816,788)	\$287,628	\$130,506,189	AAA-	0.73

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

Unrealized Gain/Loss as a percent of total market value: -1.40%

	Quarter End 9/30/15	Y-T-D 9/30/15	Prior Year 6/30/15
Average Invested Value of Managed Investment Portfolio	\$191,314,570	\$191,314,570	\$415,617,146
Managed Investment Portfolio Yield			
Total Managed Investment Portfolio Earnings	\$293,615	\$293,615	\$3,935,244
<i>Managed Investment Portfolio Annualized Rate Of Return</i>	0.61%	0.61%	0.95%
Benchmark 1 - Weighted Average of Comparable Indices			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/16			1,295,583
Quarter Ended 3/31/16			
Quarter Ended 12/31/15			
Quarter Ended 9/30/15	256,049	256,049	
Total Pro Forma Benchmark 1 Earnings	\$256,049	\$256,049	\$1,295,583
<i>Benchmark 1 Annualized Rate Of Return</i>	0.53%	0.53%	0.31%
Benchmark 2 - Florida Prime (SBA LGIP)			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/16			554,804
Quarter Ended 3/31/16			
Quarter Ended 12/31/15			
Quarter Ended 9/30/15	112,409	112,409	
Total Pro Forma Benchmark 2 Earnings	\$112,409	\$112,409	\$554,804
<i>Benchmark 2 Annualized Rate Of Return</i>	0.24%	0.24%	0.18%
Earnings Comparison			
<i>Annualized Rate of Return</i>			
Managed Investment Portfolio vs. Benchmark 1	0.08%	0.08%	0.64%
Managed Investment Portfolio vs. Benchmark 2	0.37%	0.37%	0.77%
<i>Dollar Earnings</i>			
Managed Investment Portfolio vs. Benchmark 1	\$37,566	\$37,566	\$2,639,661
Managed Investment Portfolio vs. Benchmark 2	\$181,206	\$181,206	\$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.

September 30, 2015	<u>Quarter End</u>	<u>Fiscal Y-T-D</u>	<u>Prior Fiscal Year</u>
Realized Gains/Losses	(913,798)	(913,798)	(4,736,553)
MV Adjustment for Period	43,085	43,085	2,974,586
Net Incr/(Decr) in fair value of investments	<u>(870,713)</u>	<u>(870,713)</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 over the State Board of Administration’s (SBA) local government investment pool by \$181,206. Since August 1992, the MIP’s cumulative earnings were over the SBA by \$34,613,643.

Note 4 – Effect of Unrealized Gains and Losses on Income

The district’s MIP currently has an unrealized loss of \$1,816,788. This figure has been netted against interest income. If the district’s bonds were priced at par (100) as of September 30, 2015, the district’s cumulative earnings over the SBA would be \$36,430,431.

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 \$47,338,344 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	\$32,114,611	
Money Market Fund	\$15,223,733	AAA
Other Pooled Investments	\$20,893,161	AA
Corporate ABS	\$17,952,643	AAA
Other MBS Bonds	\$37,491,389	AAA
Other MBS Bonds FR	\$6,543,024	AAA
Portfolio	\$130,218,562	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	27.77%	\$36,164,417	Exempt
UST	11.52%	15,006,300	United States Treasury
FHLMC	11.91%	15,503,435	Federal Home Loan Mgte Corp
HART	12.01%	15,636,868	Hyundai Auto Receivables Trust
JPMCC	12.93%	16,834,044	JP Morgan Chase Comm Mortgage
WBCMT	12.94%	16,853,532	Wachovia Bank Comm Mortgage Tr
CSMC	5.02%	6,543,024	Credit Suisse Mtge Capital

Securities Where Issuer Represents More Than 5% of Portfolio

Issuer	CUSIP	Market Value	Description
WBCMT	92977RAD8	16,853,531.90	WBCMT 06-C26 A3
HART	44890GAG0	15,636,867.88	HART 12-A D
UST	912828UE8	15,006,300.00	UST 0 3/4%
FHLMC	3137BERG1	11,712,165.59	FHR 4399 CB
CSMC	22545BAC5	6,543,024.44	CSMC 06-C2 A3
JPMCC	46628FAF8	5,881,926.30	JPMCC 06-LDP7A4
JPMCC	46625YZX4	5,640,336.43	JPMCC 06-CB14 A
JPMCC	46625YP64	4,434,875.87	JPMCC 06-LDP6
FHLMC	3137AQNA2	3,791,269.62	FHR 4039 JA
JPMCC	46625YCV3	876,905.66	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 0.73 years, or 8.82months.

Floating/Adjustable Interest Rate Risk

The district currently has #N/A invested in securities with floating or adjustable interest rate risk. #N/A 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 4.58 years. The duration on the District's ABS/MBS bonds ranges from 0 years to 4.58 years.

Interest Rate Risk

Investment Category	Market Value	Mod. Dur.
Exempt	\$15,271,256	0.00
Investment Pool	\$20,893,161	0.24
Treasury Coupon Securities	\$15,006,300	2.22
MBS Agency CMOs	\$15,534,797	1.85
MBS Agency ARMs/FR	\$1,525,992	1.90
Corporate ABS	\$17,952,643	0.48
Other MBS Bonds	\$37,491,389	0.41
Other MBS Bonds FR	\$6,543,024	0.28
Portfolio	\$130,218,562	0.73