

December 10, 2013

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, 2013

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 September 30, 2013, totaled a negative \$930,013 after recognizing a market value adjustment of a negative \$1,603,506. For the quarter, the weighted average index (WAI) (benchmark 1) outperformed the MIP by \$1,652,164. For the quarter, the State Board of Administration (benchmark 2) outperformed the MIP by \$1,045,146. The MIP earnings have exceeded the potential State Board of Administration by \$31,726,333 since inception (as noted in footnote 3). The district's MIP currently has an unrealized market loss of \$4,921,522. 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, 2013, the district's cumulative return over the SBA would be \$36,647,855.

The financial markets continue to be concerned about the Federal Reserve Board's actions regarding the tapering off of their Quantitative Easing. Since staff's strategy continues to be buy and hold, most of the losses that have been recorded against earnings are market losses. Those market losses will be made up as bond principal is returned.

DATA SOURCE:

Kevin W. Smith, CPA, Associate Superintendent, Finance and Business Services
Andrew S. Jacobsen, Manager, Cash & Investments
Investment Oversight Committee (8/29/13)

SUBMITTED BY:

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

Quarterly Investment Report

September 30, 2013



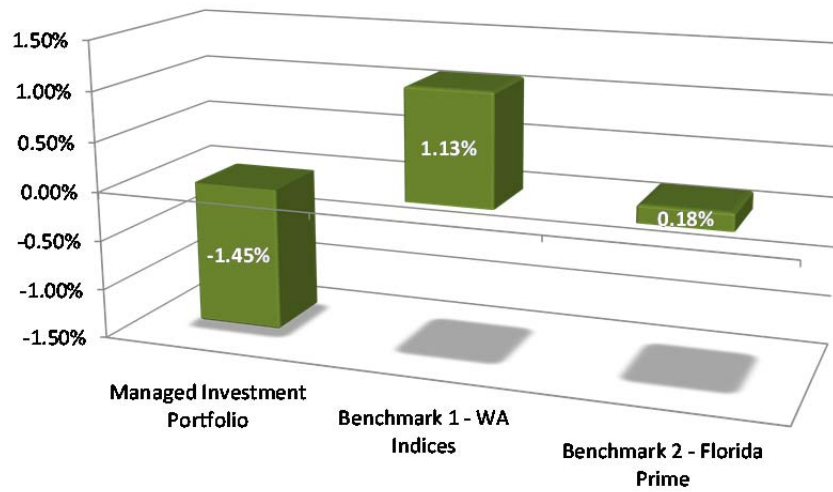
prepared by Cash Management Department



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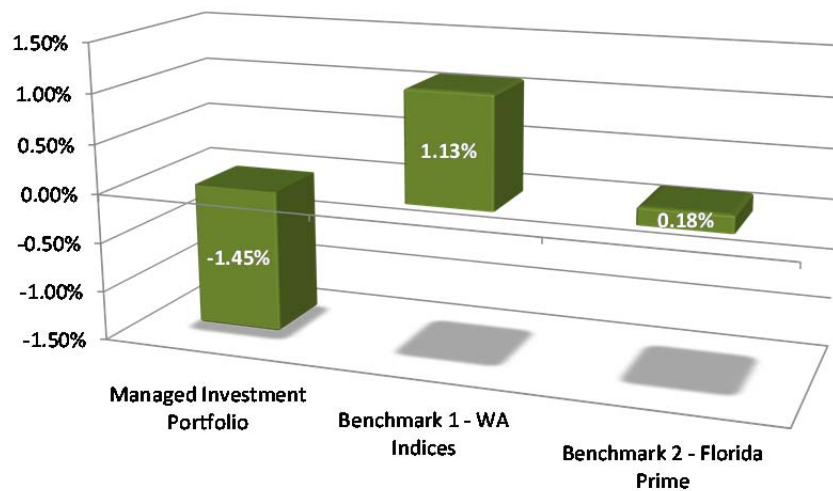
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Yield Comparison Current Quarter



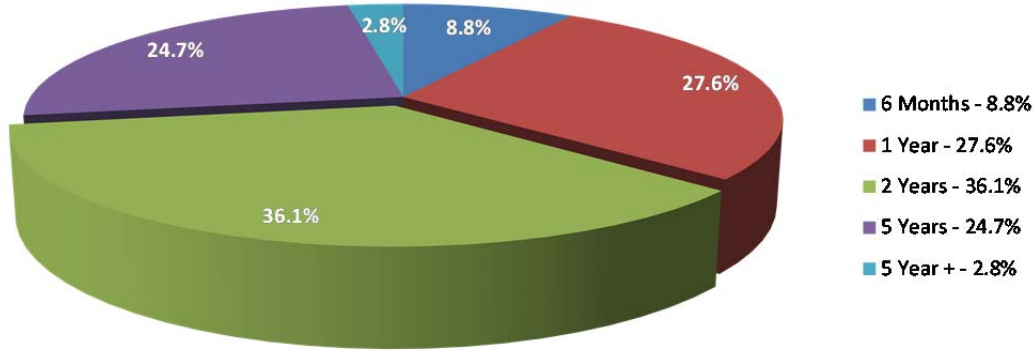
The yield on the district's managed investment program was a negative 1.45% for the quarter ended September 30, 2013.

Yield Comparison Year to Date



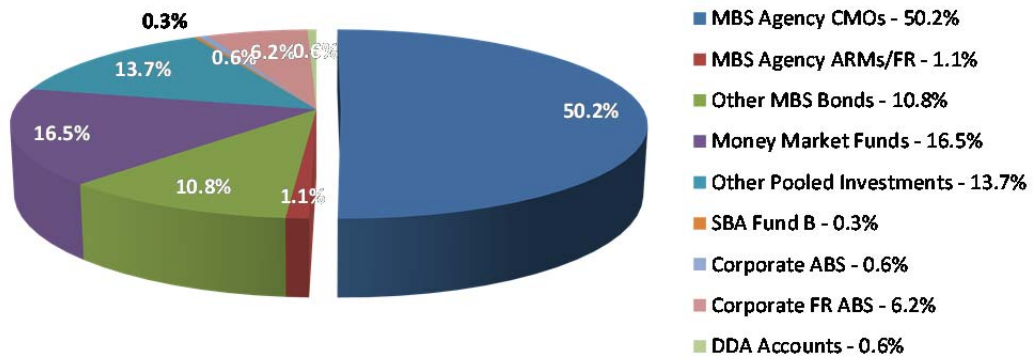
The yield on the district's managed investment program was a negative 1.45% for the fiscal year ended September 30, 2013.

Investments by Duration September 30, 2013



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 September 30, 2013



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 50.2% of the portfolio.

Portfolio Assets	9/30/13	6/30/13
Investment in U.S. Treasury and Agency Securities:		
Investments (securities at market value)	\$131,396,331	\$249,912,713
Other Pooled Investments	26,147,306	26,319,979
State Board of Administration Fund B	543,455	589,726
Accrued Interest Receivable and Prepaid Interest	264,517	621,244
Total U.S. Treasury and Agency Securities	\$158,351,609	\$277,443,662
Cash Investments		
Money market funds	31,347,716	35,660,687
Bank accounts (DDA & MMA)	1,049,950	4,432,255
Total Cash Investments	\$32,397,666	\$40,092,942
Total Managed Investment Portfolio Value	\$190,749,275	\$317,536,604

Portfolio Income	Quarter End 9/30/13	Y-T-D 9/30/13	Prior Year 6/30/13
Interest Earned			
U.S. Government Securities & Other Pooled Accounts	1,649,239	1,649,239	7,913,641
Money Market Funds	2,418	2,418	28,906
Bank Accounts	6,069	6,069	39,667
Total Interest Earned	1,657,726	1,657,726	7,982,215
Net increase/(decrease) in fair value of investments - Note 2	(2,587,739)	(2,587,739)	(9,105,286)
Total Managed Investment Portfolio Income	(\$930,013)	(\$930,013)	(\$1,123,071)

Yield Comparison - Page 5	Quarter End 9/30/13	Y-T-D 9/30/13	Prior Year 6/30/13
<i>Managed Investment Portfolio</i>			
Annualized Rate of Return	-1.45%	-1.45%	-0.36%
<i>Benchmark 1 - Weighted Average of Comparable Indices</i>			
Annualized Rate of Return	1.13%	1.13%	-0.05%
Managed Investment Portfolio Yield vs. Benchmark 1	-2.58%	-2.58%	-0.30%
<i>Benchmark 2 - Florida Prime MMF (SBA LGIP)</i>			
Annualized Rate of Return	0.18%	0.18%	0.24%
Managed Investment Portfolio Yield vs. Benchmark 2	-1.63%	-1.63%	-0.59%

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
Corporate ABS - 0.60%								
JPMCC 03-CB7 A4	46625MP29	1,167,935	1,141,404	(26,531)	4,636	\$1,146,040	AAA	0.03
subtotal		\$1,167,935	\$1,141,404	(\$26,531)	\$4,636	\$1,146,040	AAA	0.03
Corporate FR ABS - 6.19%								
HCAF 10-8A A	44924CAA2	4,686,392	4,619,133	(67,259)	15,393	\$4,634,527	AAA	0.62
LBUBS 08-C1 AAB	50180LAB6	7,246,075	7,158,995	(87,079)	21,776	\$7,180,772	AAA	1.33
subtotal		\$11,932,466	\$11,778,129	(\$154,338)	\$37,170	\$11,815,298	AAA	1.05
MBS Agency CMOs - 50.33%								
FHR 2948 YD	31395PQP0	229,271	220,013	(9,258)	1,001	\$221,014	AAA	0.19
FHR 3986 TC	3137AKBY6	6,986,830	6,917,517	(69,313)	11,295	\$6,928,812	AAA	2.82
FHR 4039 JA	3137AQNA2	4,686,860	4,473,121	(213,740)	5,873	\$4,478,994	AAA	5.64
FHR 4165-CA	3137AYQY0	9,175,562	8,910,700	(264,863)	9,501	\$8,920,201	AAA	3.36
FNR 12-90 DA	3136A7RE4	18,171,883	17,130,800	(1,041,083)	22,469	\$17,153,269	AAA	2.64
FNR 12-138 MA	3136AAFH3	18,097,243	17,339,797	(757,446)	15,034	\$17,354,831	AAA	1.99
FNR 12-117 DA	3136A8P20	22,589,929	21,451,788	(1,138,141)	27,975	\$21,479,764	AAA	1.57
FNR 13-18 JZ	3136ACXV8	224,824	235,279	10,455	515	\$235,794	AAA	0.58
GNR 11-51 JM	38377VKS4	1,643,650	1,647,750	4,101	4,572	\$1,652,322	AAA	2.16
GNR 08-38 PS	38375QGZ6	1,170,776	1,142,599	(28,177)	3,268	\$1,145,867	AAA	1.24
GNR 10-161 AB	38376GZA1	10,115,108	9,974,151	(140,957)	17,291	\$9,991,442	AAA	1.52
GNR 09-99 A	38376GBS8	1,155,207	1,127,471	(27,736)	3,182	\$1,130,652	AAA	0.63
GNR 09-115 AD	38376GCR9	2,342,861	2,299,906	(42,955)	5,724	\$2,305,630	AAA	0.69
GNR 09-71 A	38376GAG5	623,720	607,017	(16,703)	1,663	\$608,680	AAA	0.51
GNR 10-52 AE	38376GGU8	458,586	445,872	(12,714)	1,494	\$447,366	AAA	0.79
GNR 13-26 GA	38378JBV3	1,961,168	1,944,062	(17,106)	2,830	\$1,946,892	AAA	2.55
subtotal		\$99,633,477	\$95,867,841	(\$3,765,636)	\$133,688	\$96,001,529	AAA	2.26
MBS Agency ARMs/FR - 1.05%								
FNR 07-114 A6	31396X3Q5	1,995,000	2,001,440	6,440	64	\$2,001,504	AAA	3.49
subtotal		\$1,995,000	\$2,001,440	\$6,440	\$64	\$2,001,504	AAA	3.49
Other MBS Bonds - 10.85%								

Pinellas County Schools
Quarterly Investment Report

September 30, 2013
Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.
BSCMS 05-PW10 A	07387BEA7	6,520,692	6,346,036	(174,656)	28,231	\$6,374,267	AAA	0.28
BSCMS 04-PWR3 A	07383FYH5	2,257,436	2,212,147	(45,289)	7,586	\$2,219,733	AAA	0.22
CSMC 07-C5 A3	22546BAD2	8,492,681	8,120,238	(372,443)	37,066	\$8,157,304	AAA	0.68
MLMT 03-KEY1 A4	59022HCQ3	2,603,833	2,533,511	(70,322)	11,066	\$2,544,576	AAA	0.03
WBCMT 06-C24 AP	92976BFQ0	1,357,801	1,300,519	(57,282)	6,000	\$1,306,519	AAA	0.30
WBCMT 06-C29 A3	92978PAC3	99,064	95,066	(3,998)	(1,574)	\$93,493	AAA	0.04
subtotal		\$21,331,508	\$20,607,517	(\$723,990)	\$88,375	\$20,695,892	AAA	0.40
Cash, MMFs, & Investment Pools - 30.98%								
Bank Accts (DDA & MMA)	N/A	1,049,950	1,049,950	0	0	\$1,049,950	N/A	0.00
Money Market Funds	N/A	31,347,716	31,347,716	0	585	\$31,348,301	AAAm	0.00
Core Fund	1149200011	26,405,948	26,147,306	(258,642)	0	\$26,147,306	Aaa-bf	0.61
SBA Fund B	251361B	542,279	543,455	1,175	0	\$543,455	N/A	3.98
subtotal		\$59,345,893	\$59,088,427	(\$257,467)	\$585	\$59,089,011	AAA-	0.31
Managed Investment Program		\$195,406,280	\$190,484,758	(\$4,921,522)	\$264,517	\$190,749,275	AAA	1.38

Unrealized Gain/Loss as a percent of total market value: -2.58%

	Quarter End 9/30/13	Y-T-D 9/30/13	Prior Year 6/30/13
Average Invested Value of Managed Investment Portfolio	\$253,766,456	\$253,766,456	\$315,979,285
Managed Investment Portfolio Yield			
Total Managed Investment Portfolio Earnings	(\$930,013)	(\$930,013)	(\$1,123,071)
<i>Managed Investment Portfolio Annualized Rate Of Return</i>	-1.45%	-1.45%	-0.36%
Benchmark 1 - Weighted Average of Comparable Indices			
Pro Forma Interest Earnings:			
Quarter Ended 9/30/13	722,151	722,151	(169,324)
Quarter Ended 12/31/13			
Quarter Ended 3/31/14			
Quarter Ended 6/30/14			
Total Pro Forma Benchmark 1 Earnings	\$722,151	\$722,151	(\$169,324)
<i>Benchmark 1 Annualized Rate Of Return</i>	1.13%	1.13%	-0.05%
Benchmark 2 - Florida Prime (SBA LGIP)			
Pro Forma Interest Earnings:			
Quarter Ended 9/30/13	115,133	115,133	756,840
Quarter Ended 12/31/13			
Quarter Ended 3/31/14			
Quarter Ended 6/30/14			
Total Pro Forma Benchmark 2 Earnings	\$115,133	\$115,133	\$756,840
<i>Benchmark 2 Annualized Rate Of Return</i>	0.18%	0.18%	0.24%
Earnings Comparison			
<i>Annualized Rate of Return</i>			
Managed Investment Portfolio vs. Benchmark 1	-2.58%	-2.58%	-0.30%
Managed Investment Portfolio vs. Benchmark 2	-1.63%	-1.63%	-0.59%
<i>Dollar Earnings</i>			
Managed Investment Portfolio vs. Benchmark 1	(\$1,652,164)	(\$1,652,164)	(\$953,747)
Managed Investment Portfolio vs. Benchmark 2	(\$1,045,146)	(\$1,045,146)	(\$1,879,911)

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, 2013	<u>Quarter End</u>	<u>Fiscal Y-T-D</u>	<u>Prior Fiscal Year</u>
Realized Gains/Losses	(1,603,506)	(1,603,506)	(2,107,717)
MV Adjustment for Period	(984,234)	(984,234)	(6,997,568)
Net Incr/(Decr) in fair value of investments	<u>(2,587,739)</u>	<u>(2,587,739)</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 -\$1,045,146. Since August 1992, the MIP’s cumulative earnings were over the SBA by \$31,726,333.

Note 4 – Effect of Unrealized Gains and Losses on Income

The district’s MIP currently has an unrealized loss of \$4,921,522. This figure has been netted against interest income. If the district’s bonds were priced at par (100) as of September 30, 2013, the district’s cumulative earnings over the SBA would be \$36,647,855.

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

Investment Category	Market Value	Average Rating
Corporate ABS	\$1,141,404	AAA
Corporate FR ABS	\$11,778,129	AAA
MBS Agency CMOs	76,679,015	AAA
MBS Agency ARMs/FR	2,001,440	AAA
Other MBS Bonds	\$20,607,517	AAA
Investment Pools & M	57,495,022	AAA
Exempt Investments	20,238,776	N/A
Non-compliant Investm	543,455	NR
Total	\$190,484,758	AAA

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 \$12,919,533 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.

Concentration of Credit Risk

Concentration of Credit Risk

Issuer	Percent of Total	Issuer Full Name
Exempt	21.10%	
FNMA	20.83%	Federal National Mortgage Association
FHLMC	11.93%	Federal Home Loan Mortgage Corporation
JPMCC	8.69%	JP Morgan Credit Card Trust
GNMA	7.14%	Government National Mortgage Association
GMACC	5.45%	GMAC Commercial Mortgage Securities

Securities Where Issuer Represents More Than 5% of Portfolio

Description	CUSIP	Market Value	Issuer
GNR 10-161 AB	38376GZA1	9,974,150.78	GNMA
FHR 4165-CA	3137AYQY0	8,910,699.57	FHLMC
FHR 3986 TC	3137AKBY6	6,917,516.92	FHLMC
FHR 4039 JA	3137AQNA2	4,473,120.70	FHLMC
GNR 09-115 AD	38376GCR9	2,299,905.87	GNMA
GNR 13-26 GA	38378JBV3	1,944,061.57	GNMA
GNR 11-51 JM	38377VKS4	1,647,750.44	GNMA
GNR 08-38 PS	38375QGZ6	1,142,598.83	GNMA
JPMCC 03-CB7 A4	46625MP29	1,141,404.20	JPMCC
GNR 09-99 A	38376GBS8	1,127,470.53	GNMA
GNR 09-71 A	38376GAG5	607,016.87	GNMA
GNR 10-52 AE	38376GGU8	445,871.51	GNMA
FHR 2948 YD	31395PQP0	220,013.01	FHLMC

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.

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 1.38 years, or 16.52months.

Floating/Adjustable Interest Rate Risk

The district currently has \$13,779,569 invested in securities with floating or adjustable interest rate risk. \$13,779,569 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 0.38% to 6.35%.

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 5.64 years. The duration on the District's ABS/MBS bonds ranges from 0.03 years to 5.64 years.

Interest Rate Risk

Investment Category	Market Value	Mod. Dur.
MBS Agency CMOs	95,867,841	
Exempt	32,397,666	
Investment Pool	26,690,761	
Other MBS Bonds	20,607,517	
Corporate FR ABS	11,778,129	
MBS Agency ARMs/FR	2,001,440	
Corporate ABS	1,141,404	
Portfolio	\$190,484,758	1.38