

February 16, 2018

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 September 30, 2017

BACKGROUND:

The Quarterly Investment Report is a quarterly and fiscal year summary of the portfolio performance.

STRATEGIC DIRECTION: Effective and Efficient Use of Resources

ALTERNATIVES:

1. Approve the Investment Portfolio Financial Statements
2. Do not approve 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 September 30, 2017, totaled \$451,304 after recognizing a decrease in fair market value of \$562,450. During the period, the weighted average index (WAI) (Benchmark 1) outperformed the MIP by \$128,837 and the Florida Prime (Benchmark 2) outperformed MIP by \$227,320. The MIP earnings have exceeded the potential Florida Prime fund by \$34,791,667 since inception (see footnote 3). The district's MIP currently has an unrealized market loss of \$407,968. 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, 2017, the district's cumulative return over the Florida Prime fund would be \$35,199,634 (see footnote 4).

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, 2017

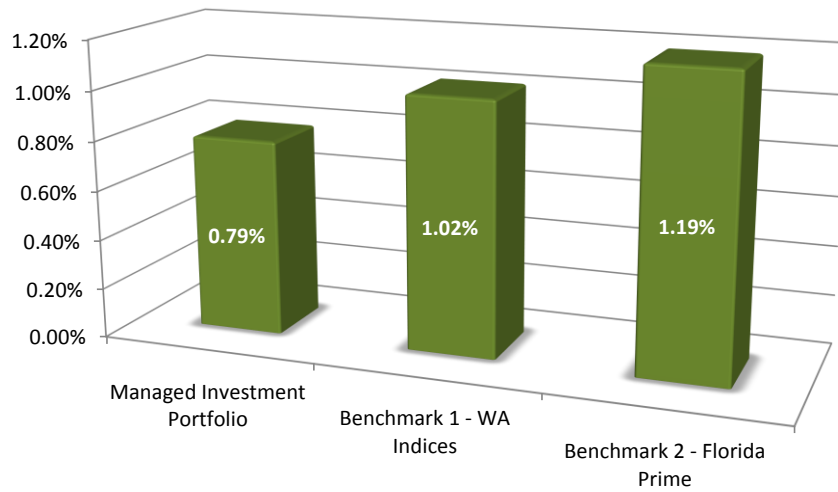


prepared by Cash Management Department

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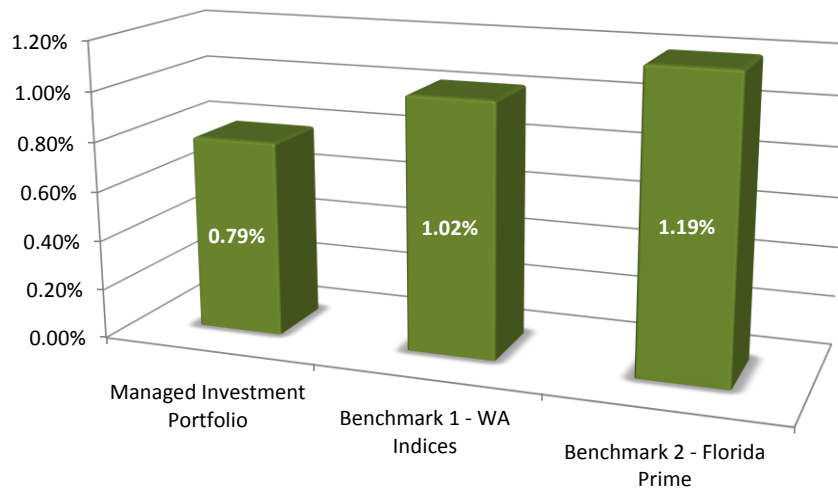
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Yield Comparison September 30, 2017



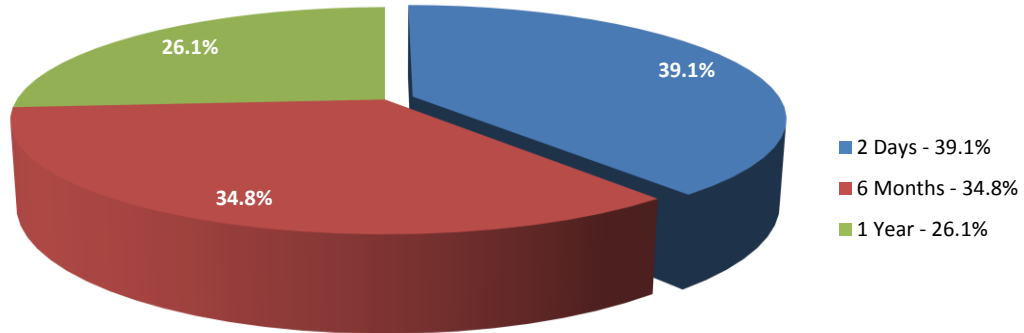
The yield on the district's managed investment program was 0.79% for the quarter ended September 30, 2017.

Yield Comparison Year to Date through September 30, 2017



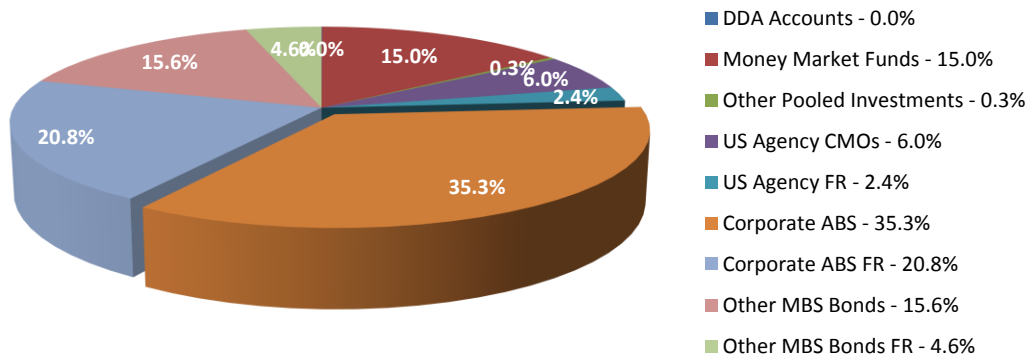
The yield on the district's managed investment program was 0.79% for the fiscal year ended September 30, 2017.

Investments by Duration September 30, 2017



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, 2017



The above chart breaks down the district’s portfolio by investment type. For example, the largest category is Corporate Asset-Backed Securities representing 35.3% of the portfolio.

Portfolio Assets	9/30/17			6/30/17
Investment in U.S. Treasury and Agency Securities:				
Investments (securities at market value)	\$116,339,152			\$208,878,831
Other Pooled Investments	468,415			35,405,452
Accrued Interest Receivable and Prepaid Interest	276,829			456,833
Total U.S. Treasury and Agency Securities	\$117,084,396			\$244,741,115
Cash Investments				
Money market funds	20,680,021			16,464,374
Pooled Cash Investments	0			0
Bank accounts (DDA & MMA)	42,055			1,859,682
Total Cash Investments	\$20,722,076			\$18,324,056
Total Managed Investment Portfolio Value	\$137,806,473			\$263,065,171
	Quarter End	Y-T-D	Prior Year	
	9/30/17	9/30/17	6/30/17	
Portfolio Income				
Interest Earned				
U.S. Government Securities & Other Pooled Accounts	967,018	966,163	3,790,969	
Money Market Funds	46,736	46,736	888,735	
Bank Accounts	0	0	0	
Total Interest Earned	1,013,754	1,012,899	4,679,703	
Net increase/(decrease) in fair value of investments - Note 2	(562,450)	(562,450)	(1,661,439)	
Total Managed Investment Portfolio Earnings	\$451,304	\$450,449	\$3,018,264	
	Quarter End	Y-T-D	Prior Year	
	9/30/17	9/30/17	6/30/17	
Yield Comparison - Page 5				
<i>Managed Investment Portfolio</i>				
Annualized Rate of Return	0.79%	0.79%	0.87%	
<i>Benchmark 1 - Weighted Average of Comparable Indices</i>				
Annualized Rate of Return	1.02%	1.02%	0.70%	
Managed Investment Portfolio Yield vs. Benchmark 1	-0.23%	-0.23%	0.17%	
<i>Benchmark 2 - Florida Prime MMF (SBA LGIP)</i>				
Annualized Rate of Return	1.19%	1.19%	0.92%	
Managed Investment Portfolio Yield vs. Benchmark 2	-0.40%	-0.40%	-0.05%	

Pinellas County Schools
Quarterly Investment Report

September 30, 2017
Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.	% of Port
US Agency CMOs									
GNR 13-130 JA	38378UBS5	8,232,629	8,203,474	(29,155)	16,937	\$8,220,410	Aaa	0.90	6.0%
subtotal		\$8,232,629	\$8,203,474	(\$29,155)	\$16,937	\$8,220,410	AAA	0.90	6.0%
US Agency FR									
FNR 04-79 FP	31394BFD1	3,285,527	3,282,177	(3,350)	838	\$3,283,015	Aaa	0.30	2.4%
subtotal		\$3,285,527	\$3,282,177	(\$3,350)	\$838	\$3,283,015	AAA	0.30	2.4%
Corporate ABS									
2014-5 A2	02005AER5	20,342,239	20,291,420	(50,819)	14,428	\$20,305,849	Aaa	0.00	14.8%
2014-4 B	03065JAE4	16,445,041	16,411,480	(33,561)	19,593	\$16,431,073	Aaa	0.35	11.9%
CNH 14-A A4	12591BAD7	9,651,383	9,630,578	(20,805)	6,420	\$9,636,999	Aaa	0.32	7.0%
EFF 17-1 A1	29372EBU1	2,209,244	2,208,255	(988)	709	\$2,208,964		0.00	1.6%
subtotal		\$48,647,907	\$48,541,734	(\$106,173)	\$41,151	\$48,582,885	AAA-	0.18	35.3%
Corporate ABS FR									
2014-5 A1	02005AEQ7	10,022,573	10,002,000	(20,573)	7,664	\$10,009,664	Aaa	0.00	7.3%
FORDF 14-2 A	34528QDA9	10,898,686	10,933,499	34,812	8,359	\$10,941,857	Aaa	0.38	7.9%
NGN 2010-R3 1A	62888WAA4	7,661,565	7,630,603	(30,962)	9,093	\$7,639,696	Aaa	0.35	5.5%
subtotal		\$28,582,824	\$28,566,101	(\$16,723)	\$25,116	\$28,591,217	AAA	0.24	20.8%
Other MBS Bonds									
JPMCC 04-LN2 A2	46625YCV3	58,643	57,388	(1,256)	245	\$57,633	Aaa	0.00	0.0%
SBA 510021	83164MD22	21,504,153	21,411,263	(92,890)	116,993	\$21,528,256		0.81	15.6%
subtotal		\$21,562,796	\$21,468,650	(\$94,146)	\$117,238	\$21,585,889	NR	0.80	15.6%
Other MBS Bonds FR									
SBA 522179	83165AUC6	6,410,046	6,277,015	(133,031)	47,395	\$6,324,411	Aaa	0.56	4.6%
subtotal		\$6,410,046	\$6,277,015	(\$133,031)	\$47,395	\$6,324,411	AAA	0.56	4.6%
Cash, MMFs, & Investment Pools									
Bank Accounts ¹	N/A	42,055	42,055	0	0	42,055	NR	1d	0.0%

Pinellas County Schools
 Quarterly Investment Report

September 30, 2017
 Total Investment Value

Security Description	CUSIP	Book Value	Market Value	Unrealized Gain/Loss	Prepaid & Accrued Interest	Total Investment Value	Rtg	Mod. Dur.	% of Port
Money Market Funds ¹	N/A	20,680,276	20,680,021	(255)	9,156	20,689,177	AAAm	0d	15.0%
FL FIT (CP Portfolio) ¹	140021420B	0	0	0	0	0		0d	0.0%
FL FIT (1-3 Yr Portfolio)	140021420	493,549	468,415	(25,134)	0	468,415	AA	0.00	0.3%
subtotal		\$21,215,881	\$21,190,491	(\$25,389)	\$9,156	\$21,199,648	AAA-	0.00	15.4%
Managed Investment Program		\$137,937,611	\$137,529,643	(\$407,968)	\$257,831	\$137,787,474	AA+	0.38	

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

Unrealized Gain/Loss as a percent of total market value: -0.30%

	Quarter End 9/30/17	Y-T-D 9/30/17	Prior Year 6/30/17
Average Invested Value of Managed Investment Portfolio	\$226,183,497	\$226,183,497	\$347,324,451
Managed Investment Portfolio Yield			
Total Managed Investment Portfolio Earnings	\$451,304	\$451,304	\$3,018,264
<i>Managed Investment Portfolio Annualized Rate Of Return</i>	0.79%	0.79%	0.87%
Benchmark 1 - Weighted Average of Comparable Indices			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/18			2,427,018
Quarter Ended 3/31/18			
Quarter Ended 12/31/17			
Quarter Ended 9/30/17	580,140	580,140	
Total Pro Forma Benchmark 1 Earnings	\$580,140	\$580,140	\$2,427,018
<i>Benchmark 1 Annualized Rate Of Return</i>	1.02%	1.02%	0.70%
Benchmark 2 - Florida Prime (SBA LGIP)			
Pro Forma Interest Earnings:			
Quarter Ended 6/30/18			3,200,957
Quarter Ended 3/31/18			
Quarter Ended 12/31/17			
Quarter Ended 9/30/17	678,624	678,624	
Total Pro Forma Benchmark 2 Earnings	\$678,624	\$678,624	\$3,200,957
<i>Benchmark 2 Annualized Rate Of Return</i>	1.19%	1.19%	0.92%
Earnings Comparison			
<i>Annualized Rate of Return</i>			
Managed Investment Portfolio vs. Benchmark 1	-0.23%	-0.23%	0.17%
Managed Investment Portfolio vs. Benchmark 2	-0.40%	-0.40%	-0.05%
<i>Dollar Earnings</i>			
Managed Investment Portfolio vs. Benchmark 1	(\$128,837)	(\$128,837)	\$591,246
Managed Investment Portfolio vs. Benchmark 2	(\$227,320)	(\$227,320)	(\$182,693)

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, 2017	<u>Quarter End</u>	<u>Fiscal Y-T-D</u>	<u>Prior Fiscal Year</u>
Realized Gains/Losses	(734,236)	(734,236)	110,484
MV Adjustment for Period	171,785	171,785	(1,771,923)
Net Incr/(Decr) in fair value of investments	<u>(562,450)</u>	<u>(562,450)</u>	<u>(1,661,439)</u>

Note 3 – Cumulative Return Over the SBA

For the fiscal year-to-date, the Managed Investment Portfolio’s (MIP) earnings were less than the State Board of Administration’s (SBA) local government investment pool by (\$227,320). Since August 1992, the MIP’s cumulative earnings were over the SBA by 34,791,667.

Note 4 – Effect of Unrealized Gains and Losses on Income

The district’s MIP currently has an unrealized loss of \$407,968. This figure has been netted against interest income. If the district’s bonds were priced at par (100) as of September 30, 2017, the district’s cumulative earnings over the SBA would be \$35,199,634.

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 \$77,107,835 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	\$21,190,491	AAA-
US Agency CMOs	\$8,203,474	AAA
US Agency FR	\$3,282,177	AAA
Corporate ABS	\$48,541,734	AAA-
Corporate ABS FR	\$28,566,101	AAA
Other MBS Bonds	\$21,468,650	NR
Other MBS Bonds FR	\$6,277,015	AAA
Portfolio	\$137,529,643	AA+

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	15.41%	\$21,190,491	Exempt
GNMA	5.96%	8,203,474	Government National Mtge Assoc
ALLY	22.03%	30,293,420	ALLY Master Owner Trust
AMCAR	11.93%	16,411,480	Americredit Auto Receivables T
CNH	7.00%	9,630,578	CNH Equipment Trust
FORDF	7.95%	10,933,499	Ford Credit Floorplan Master O
NCUA	5.55%	7,630,603	National Credit Union Assoc
SBA	15.57%	21,411,263	State Board of Administration

Securities Where Issuer Represents More Than 5% of Portfolio

Issuer	CUSIP	Market Value	Description
SBA	83164MD22	21,411,262.82	SBA 510021
ALLY	02005AER5	20,291,420.30	AMOT 14-5 A2
AMCAR	03065JAE4	16,411,480.00	AMCAR 14-4 B
FORDF	34528QDA9	10,933,498.52	FORDF 14-2 A
ALLY	02005AEQ7	10,002,000.00	AMOT 14-5 A1
CNH	12591BAD7	9,630,578.40	CNH 14-A A4
GNMA	38378UBS5	8,203,473.51	GNR 13-130 JA
NCUA	62888WAA4	7,630,602.82	NGN 10-R3 1A

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 0.38 years, or 4.56months.

Floating/Adjustable Interest Rate Risk

The district currently has \$38,125,294 invested in securities with floating or adjustable interest rate risk. \$38,125,294 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 4.07%.

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 0.9 years. The duration on the District's ABS/MBS bonds ranges from 0.3 years to 0.9 years.

Interest Rate Risk

Investment Category	Market Value	Mod. Dur.
Exempt	\$20,722,076	0.00
Investment Pool	\$468,415	0.00
US Agency CMOs	\$8,203,474	0.90
US Agency FR	\$3,282,177	0.30
Corporate ABS	\$48,541,734	0.18
Corporate ABS FR	\$28,566,101	0.24
Other MBS Bonds	\$21,468,650	0.80
Other MBS Bonds FR	\$6,277,015	0.56
Portfolio	\$137,529,643	0.38