

County of Riverside

Treasurer's Pooled Investment Fund

March 2018

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Hot air balloons over Lake Skinner in Temecula, Southwest Riverside County, CA. Digital Image. NBC San Diego. <http://www.nbcsandiego.com/news/local/temecula-valley-2014-balloon-wine-festival-north-san-diego-261142951.html>

Treasurer's Pooled Investment Fund

Quarterly Commentary

A Rising Rate Environment

After the FED completed three 25-basis-point increases to the FED funds target interest rate in 2017, the big question for 2018 is, "How many this year?" The Fed has raised rates twice so far this year, first on January 31st and most recently on March 21st, taking the rate up to 1.75 percent. Many economic forecasts expect at least one more hike to happen this year in either June or August. Why does this matter you may ask? Well, actively managing a fixed income portfolio in a rising interest rate environment can be challenging at best and downright impossible without showing any unrealized losses. We have navigated these market conditions in the past, most notably the rise in rates before the great recession between 2002 and 2008, all without losing a penny. Furthermore, we didn't show any losses during the entire financial collapse or Great Recession. The upside to a rising rate environment is more interest earnings to the pool and its participants when it is needed most to shore up a beleaguered County budget. We are on target to more than double last year's earnings as interest rates continue to rise.

How does the most recent rise in interest rates (particularly market rates) affect the TPIF? It is important to mention to our readers about the difference between realized vs. unrealized gains or losses. On the bottom of this report, you will see two columns labeled

"Paper Gain or Loss," expressed in dollars, and as a percentage of the total. In the world of fixed income, there is an inverse relationship that exists in that when interest rates decline, there is a gain in the underlying market value of the securities; the reverse is also true with rising rates and a loss in underlying market value. Unrealized losses are expected to continue in a rising rate environment.

The difference between having to realize a loss vs. not having to is a function of understanding the cash flows of the County Treasury and having ample liquidity on hand to meet the needs of our depositors. Our Capital Markets team utilizes a historical cash flow model and makes adjustments throughout the year to revenues and disbursements if they come in higher or lower than expected. Our major cash outflows are pre-funded months and years in advance to negate the need to ever sell a security before maturity, especially under adverse market conditions. We have taken the appropriate steps to immunize our portfolio from this and other economic hazards and to be observant of volatile economic conditions. Moreover, we will continue to adhere to our investment objectives of safety, liquidity, and return.

The FED remains data dependent and their course of action depends on how economic conditions develop in real time. Currently,

overall economic growth and the labor market displayed enough positive momentum for the FED to continue its rate hike trajectory, despite the core inflation rate remaining below the FED's 2 percent target rate. On their March 21 press release, the FED noted, "...economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong." The unemployment rate remains at 4.1 percent, the labor force participation rate improved, and GDP (Q4 Revised) growth of 2.9 percent was strong.

The markets were turbulent this quarter with FED activity, the implementation of trade tariffs on U.S. imports of steel and aluminum, the raising global concerns of a possible trade war, the two-day government shutdown that started on January 20th, and the suspension of the debt ceiling until March 1, 2019. In Q1 2018, the 2yr Treasury yield increased 35 bps from 1.95 to 2.27, while the 3-month bill increased 29 bps from 1.44 to 1.73. The portfolio is well positioned to capitalize on the rising rate environment.

Jon Christensen
Treasurer-Tax Collector

Treasurer's Statement

The Treasurer's Pooled Investment Fund is comprised of contributions from the county, schools, special districts, and other discretionary depositors throughout the County of Riverside. The primary objective of the treasurer shall be to **safeguard the principal** of the funds under the treasurer's control, meet the **liquidity needs** of the depositor, and to maximize a **return on the funds** within the given parameters.

The Treasurer-Tax Collector and the Capital Markets team are committed to maintaining the highest credit ratings. The Treasurer's Pooled Investment Fund is currently rated **AAA-bf** by **Moody's Investor Service** and **AAAf/S1** by **Fitch Ratings**, two of the nation's most trusted bond credit rating services.

Since its inception, the Treasurer's Pooled Investment Fund has been in **full compliance** with the Treasurer's Statement of Investment Policy, which is more restrictive than California Government Code 53646.

Capital Markets Team

Jon Christensen
Treasurer-Tax Collector

Giovane Pizano
Chief Investment Manager

Steve Faeth
Sr. Investment Manager

Isela Licea
Assistant Investment Manager

Jake Nieto
Intern

	Month End Market Value (\$)*	Month End Book Value (\$)	Paper Gain or Loss (\$)	Paper Gain or Loss (%)	Book Yield (%)	WAM (Yrs)
18-Mar	6,690,407,405.09	6,723,896,582.30	(33,489,177.21)	-0.50%	1.63	1.14
18-Feb	6,498,908,307.13	6,535,413,566.05	(36,505,258.92)	-0.56%	1.53	1.17
18-Jan	6,605,413,937.61	6,637,299,033.46	(31,885,095.85)	-0.48%	1.47	1.14
17-Dec	7,694,737,199.78	7,714,635,653.16	(19,898,453.38)	-0.26%	1.39	1.01
17-Nov	6,308,195,449.12	6,327,879,337.38	(19,683,888.26)	-0.31%	1.32	1.20
17-Oct	6,255,513,634.27	6,269,409,129.71	(13,895,495.44)	-0.22%	1.27	1.22

*Market values do not include accrued interest.

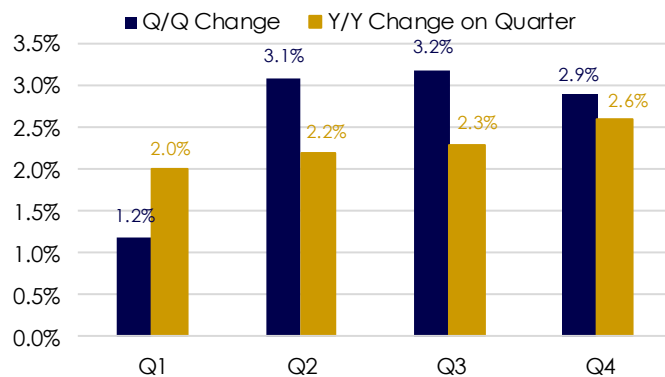
Economy

National Economy

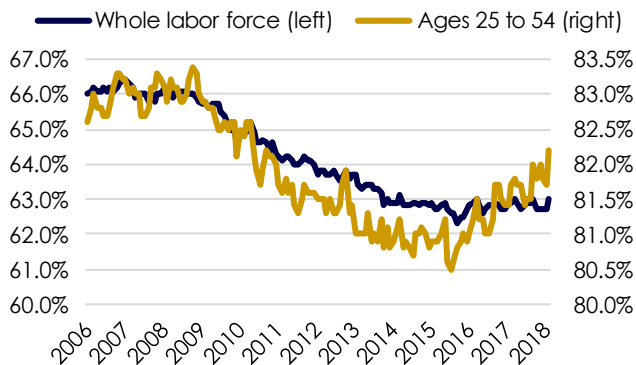
Nonfarm payrolls posted the largest gains since July 2016, according to the Employment Situation news release.

- Construction and retail trade industries contributed greatest to nonfarm payrolls. Information sector payrolls fell by twelve thousand, the largest loss of any industry.
- The prime-age labor force participation rate (25- to 54-years-old) is the highest since September 2010.
- Average hourly earnings, weekly earnings, and weekly hours worked all increased last month. [BLS; 03/10/2018]

Real GDP



Labor Force Participation Rate

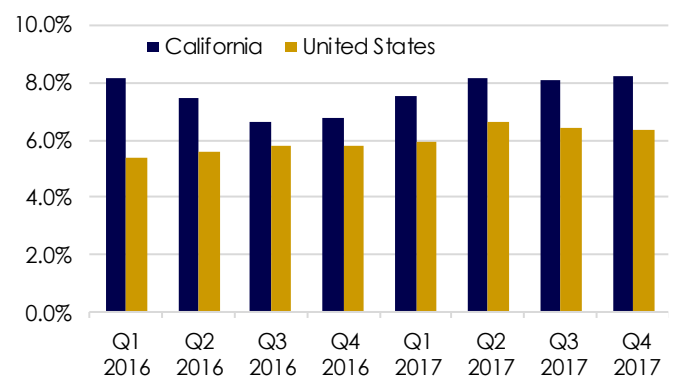


State Economy

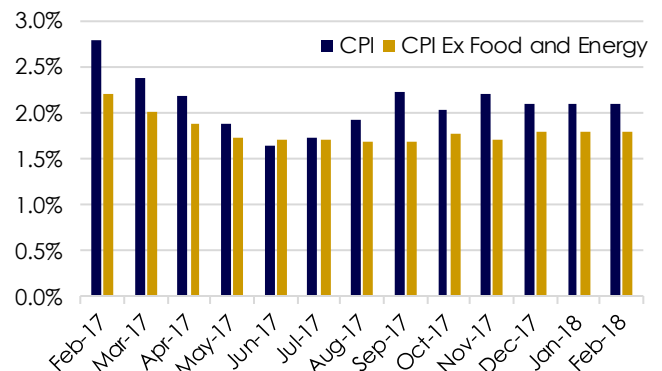
Key indexes show that California's economy continues to grow at a moderate pace.

- California Economic Activity Index has risen for fifth straight month. [Comerica Bank; 03/30/2018]
- Y/Y growth for CA housing price index has accelerated for four out of five most recent quarters. [FRED; 03/30/2018]
- California and Inland Empire could be disproportionately affected by disruptions in trade via logistics and manufacturing industries. [Inland Valley Daily Bulletin; 04/02/2018].

Housing Price Index: All Transactions (Y/Y)



Inflation Rate (Y/Y)



Source: Federal Reserve Economic Data and County of Riverside Office of the Treasurer-Tax Collector.

Key Economic Indicators

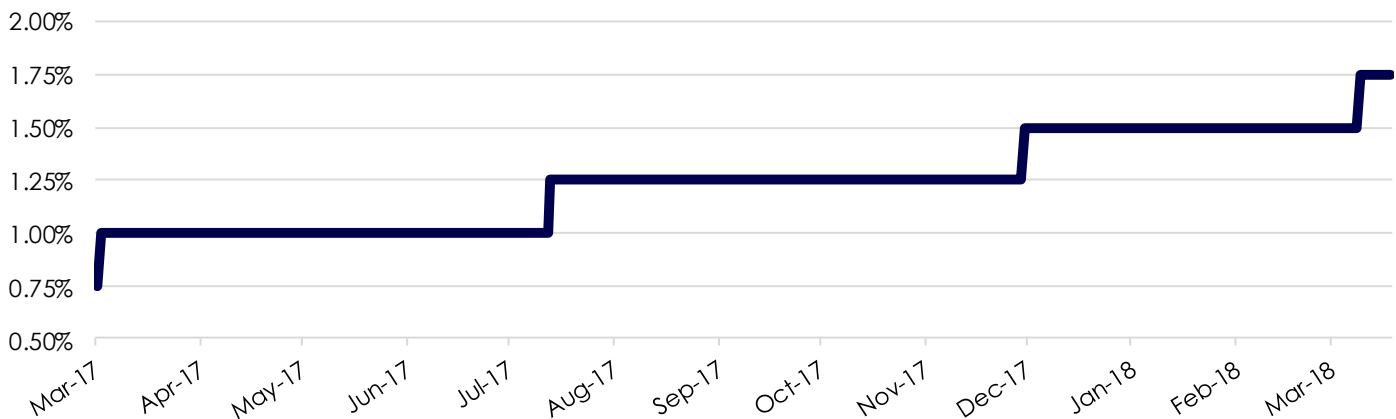
Release Date	Indicator	Actual	Consensus	Difference
03/28/2018	Real Gross Domestic Product - Q/Q Change	2.90%	2.70%	0.20%
03/09/2018	Unemployment Rate - Seasonally Adjusted	4.10%	4.00%	0.10%
03/09/2018	Non-Farm Payrolls - M/M Change	313,000	205,000	108,000
03/13/2018	CPI - Y/Y Change	2.20%	2.20%	0.00%
03/13/2018	CPI Ex Food and Energy - Y/Y Change	1.80%	1.90%	-0.10%
03/05/2018	Non-Manufacturing Index	59.5	58.8	0.70
03/21/2018	Existing Home Sales - Y/Y Change	3.00%	-	-
03/06/2018	Factory Orders - M/M Change	-1.40%	-1.30%	-0.10%
03/23/2018	Durable Goods Orders - M/M Change	3.10%	1.70%	1.40%

Market Data

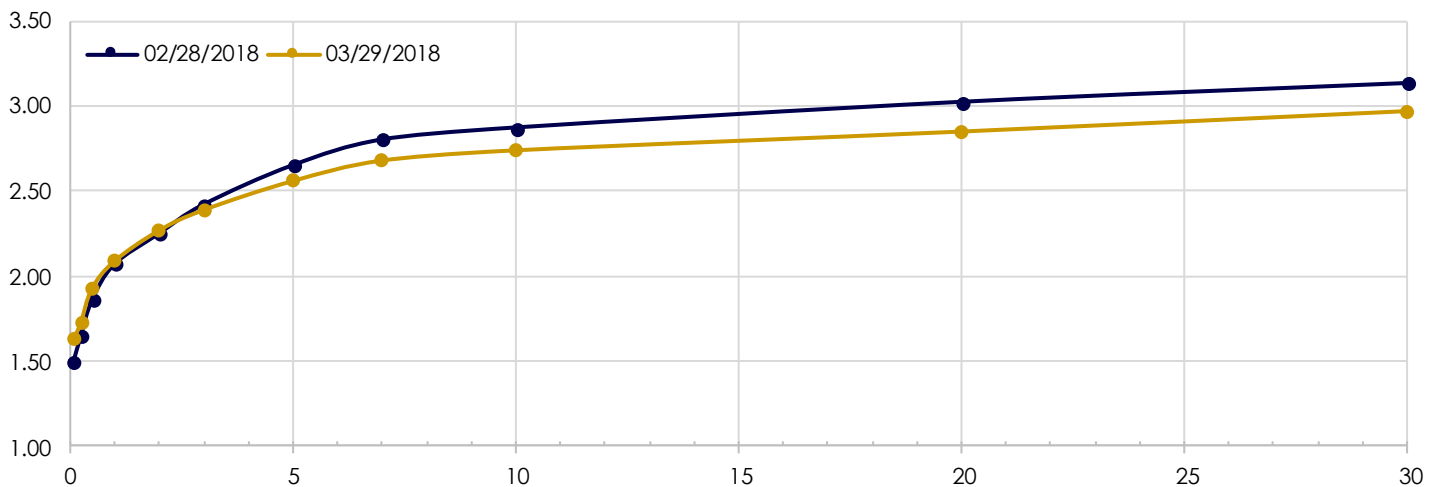
FOMC Meeting 03/21/2018

- The FOMC stated, “Near-term risks to the economic outlook appear roughly balanced”.
- The Federal Reserve increased the Fed Funds Target Rate to 1.50—1.75 from 1.25—1.50%.
- Inflation has “increased in recent months, but [remains low]”. The FOMC expects inflation “to move up in coming months and stabilize around [2 percent] over the medium term.”
- The next FOMC meeting is scheduled for May 1, 2018.

Fed Funds Target Rate (Upper Limit)



US Treasury Curve

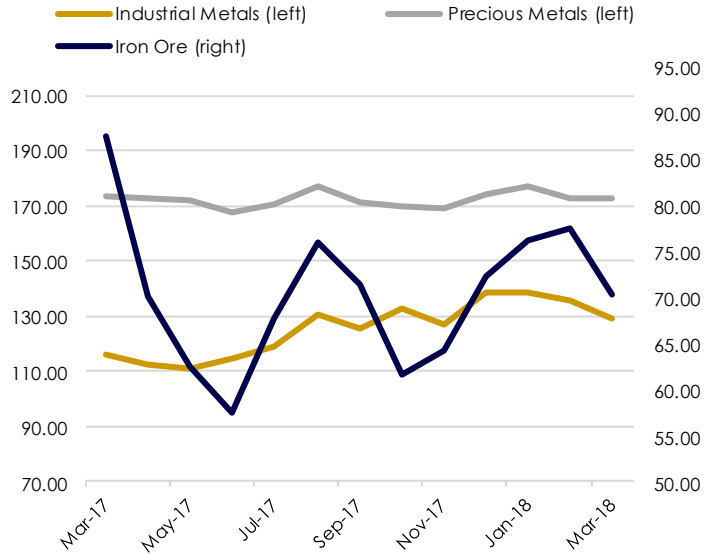
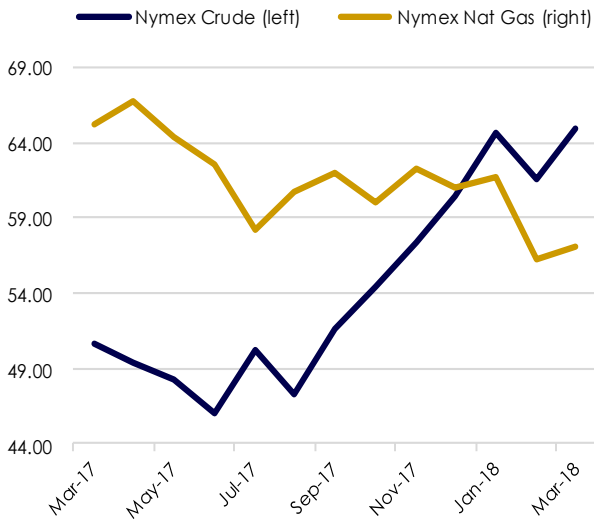


Treasury Curve Differentials	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr	30 Yr
03/29/2018 - 02/28/2018	0.08	0.07	0.02	0.02	-0.03	-0.09	-0.13	-0.16
03/29/2018	1.73	1.93	2.09	2.27	2.39	2.56	2.74	2.97
02/28/2018	1.65	1.86	2.07	2.25	2.42	2.65	2.87	3.13

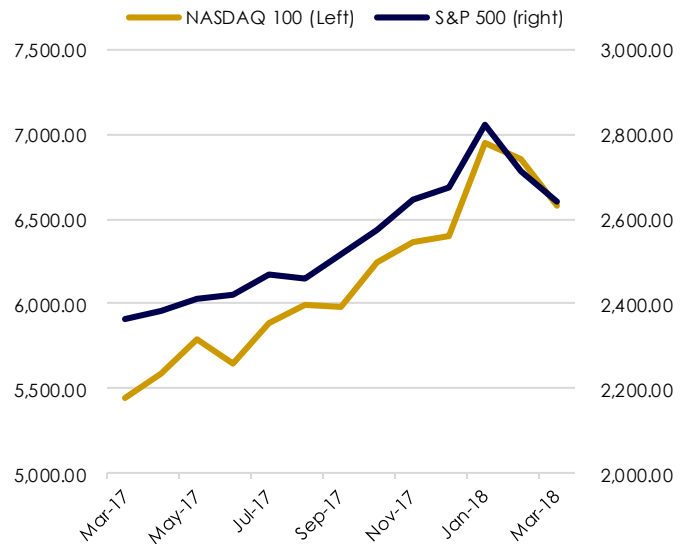
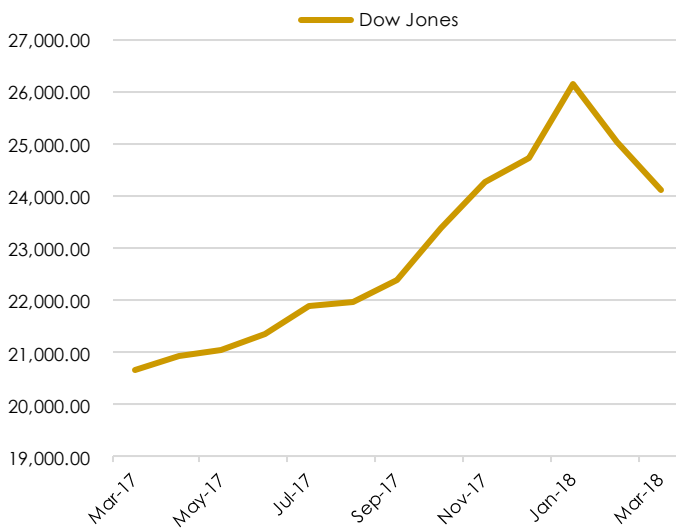
The US Treasury Curve and its values are subject to frequent change and will be updated monthly with each issued TPIF report.

Market Data cont'd

Commodities



Stocks



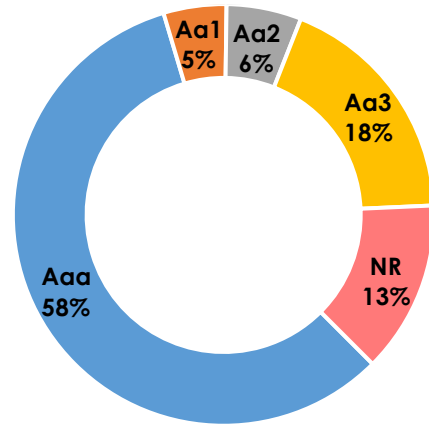
* Values listed on this page are in US dollars and are based on the final business day of the month.

Portfolio Data

The County of Riverside's Treasurer's Pooled Investment Fund is currently rated **Aaa-bf** by **Moody's Investor Service** and **AAAf/S1** by **Fitch Ratings**.

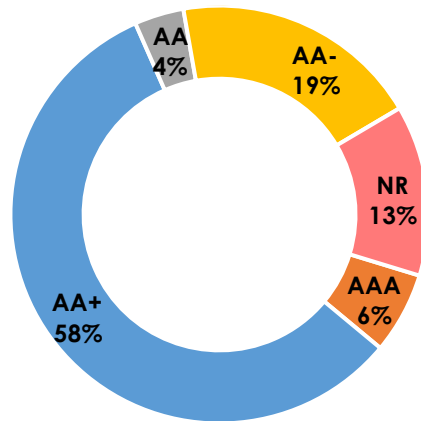
Moody's Asset Rating (000's)

	Book	MKT/Book	% Book	Yield
Aaa	3,892,516.49	99.10%	57.89%	1.61%
Aa1	324,748.86	100.14%	4.83%	1.54%
Aa2	386,884.87	100.09%	5.75%	1.65%
Aa3	1,230,982.06	100.09%	18.31%	1.72%
NR	888,764.30	99.95%	13.22%	1.63%
Totals:	6,723,896.58	99.50%	100.00%	1.63%



S&P Asset Rating (000's)

	Book	MKT/Book	% Book	Yield
AAA	424,577.75	100.06%	6.31%	1.79%
AA+	3,857,214.84	99.10%	57.37%	1.59%
AA	256,921.14	100.27%	3.82%	1.63%
AA-	1,296,418.55	100.06%	19.28%	1.70%
NR	888,764.30	99.95%	13.22%	1.63%
Totals:	6,723,896.58	99.50%	100.00%	1.63%



12-Month Projected Cash Flow

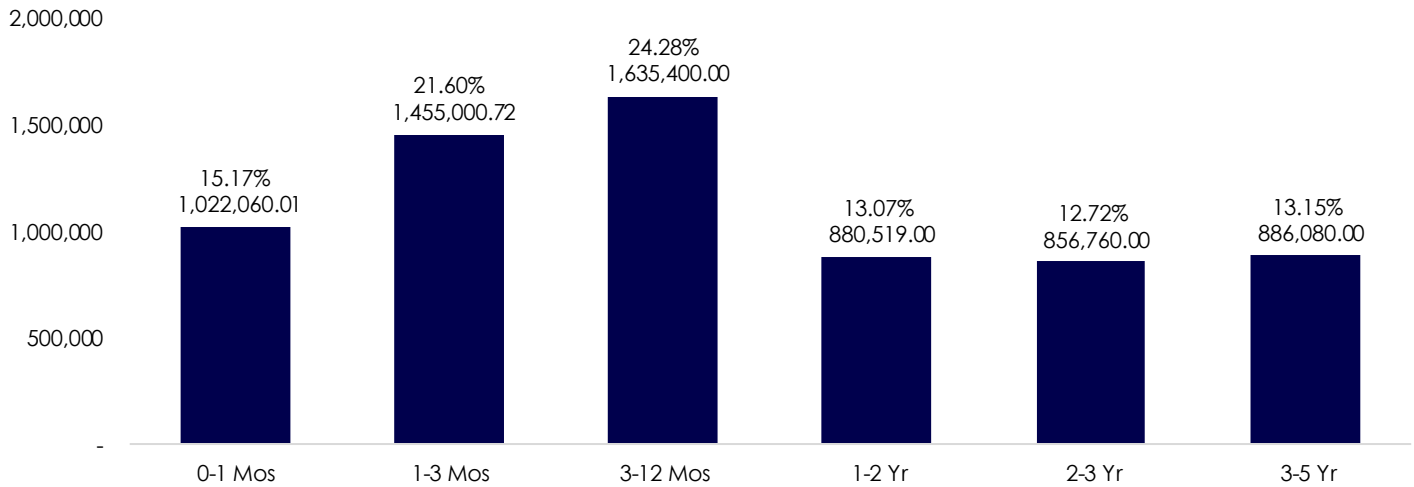
Month	Monthly Receipts	Monthly Disbursements	Difference	Required Matured Investments	Balance	Actual Investments Maturing	Available to Invest > 1 Year
04/2018					170.36		
04/2018	1,946.22	1,100.00	846.22		1,016.58	1,022.06	
05/2018	912.13	1,500.00	(587.87)		428.71	1,013.47	
06/2018	1,153.32	1,900.00	(746.68)	317.97	-	447.38	
07/2018	1,006.35	1,300.00	(293.65)	293.65	-	295.75	
08/2018	740.88	635.84	105.04		105.04	290.13	
09/2018	1,100.00	1,250.00	(150.00)	44.96	-	270.00	
10/2018	1,051.06	1,100.00	(48.94)	48.94	-	254.87	
11/2018	1,125.00	1,100.00	25.00		25.00	239.50	
12/2018	2,350.00	1,100.00	1,250.00		1,275.00	-	
01/2019	1,000.00	2,100.00	(1,100.00)		175.00	110.66	
02/2019	850.00	1,050.00	(200.00)	25.00	-	100.34	
03/2019	1,350.00	1,200.00	150.00		150.00	68.31	
TOTALS	14,584.96	15,335.84	(750.88)	730.52	3,345.69	4,112.47	5,993.37
				10.86%		61.16%	89.14%

* Values listed in Cash Flow Table are in millions of USD.

Based on historic and current financial conditions within the County, the Pool is expected to maintain sufficient liquidity of funds to cover County expenses for at least the next twelve months.

Portfolio Data cont'd

Asset Maturity Distribution (Par Value)



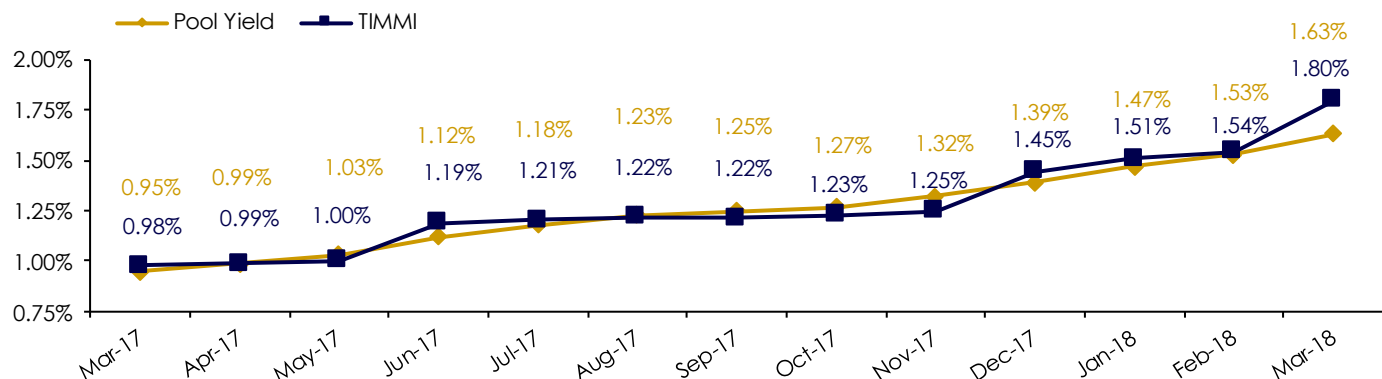
*Cash values are in thousands of dollars.

Asset Allocation

Assets	Scheduled Book	Scheduled Market	Mkt/ Sch Book	Yield	WAL (Yr)	Mat (Yr)
TREAS	293,761.19	293,397.41	99.88%	1.45%	0.561	0.561
AGENCIES	3,237,681.62	3,201,976.71	98.90%	1.57%	2.019	2.041
MMKT	141,994.51	141,994.51	100.00%	1.55%	0.003	0.003
CASH	535,000.00	535,000.00	100.00%	1.67%	0.003	0.003
CALTRUST FND	54,000.00	54,021.60	100.04%	1.60%	0.003	0.003
COMM PAPER	1,011,867.70	1,014,323.15	100.24%	1.79%	0.255	0.255
NCDS	870,000.00	870,000.00	100.00%	1.76%	0.262	0.262
MEDIUM TERM NOTES	251,877.09	251,979.55	100.04%	1.87%	0.951	0.955
MUNI	327,519.48	327,519.48	100.00%	1.32%	0.729	0.729
LOCAL AGCY OBLIG	195.00	195.00	100.00%	2.03%	2.211	2.211
Totals:	6,723,896.58	6,690,407.41	99.50%	1.63%	1.141	1.143

* For details on the Pool's composition see Month End Portfolio Holdings, pages 9 to 13.

TIMMI



The Treasurer's Institutional Money Market Index (TIMMI) is a composite index of four AAA rated prime institutional money market funds. Their average yield is compared to the yield of the Treasurer's Pooled Investment Fund in the above graph.

Compliance Report

Compliance Status: Full Compliance

The Treasurer's Pooled Investment Fund was in full compliance with the County of Riverside's Treasurer's Statement of Investment Policy. The County's Statement of Investment Policy is more restrictive than California Government Code 53646. The County's Investment Policy is reviewed annually by the County of Riverside's Oversight Committee and approved by the Board of Supervisors.

Investment Category	GOVERNMENT CODE			COUNTY INVESTMENT POLICY			Actual %
	Maximum Maturity	Authorized % Limit	S&P/ Moody's	Maximum Maturity	Authorized % Limit	S&P/ Moody's	
MUNICIPAL BONDS (MUNI)	5 YEARS	NO LIMIT	NA	4 YEARS	15%	AA-/Aa3/AA-	4.87%
U.S. TREASURIES	5 YEARS	NO LIMIT	NA	5 YEARS	100%	NA	4.37%
LOCAL AGENCY OBLIGATIONS (LAO)	5 YEARS	NO LIMIT	NA	3 YEARS	2.50%	INVESTMENT GRADE	0.00%
FEDERAL AGENCIES	5 YEARS	NO LIMIT	AAA	5 YEARS	100%	NA	48.15%
COMMERCIAL PAPER (CP)	270 DAYS	40%	A1/P1	270 DAYS	40%	A1/P1/F1	15.05%
CERTIFICATE & TIME DEPOSITS (NCD & TCD)	5 YEARS	30%	NA	1 YEAR	25% Combined	A1/P1/F1	12.94%
REPURCHASE AGREEMENTS (REPO)	1 YEARS	NO LIMIT	NA	45 DAYS	40% max, 25% in term repo over 7 days	A1/P1/F1	0.00%
REVERSE REPOS	92 DAYS	20%	NA	60 DAYS	10%	NA	0.00%
MEDIUM TERM NOTES (MTNO)	5 YEARS	30%	A	3 YEARS	20%	AA/Aa2/AA	3.75%
CALTRUST SHORT TERM FUND	NA	NA	NA	DAILY LIQUIDITY	1.00%	NA	0.80%
MONEY MARKET MUTUAL FUNDS (MMF)	60 DAYS ⁽¹⁾	20%	AAA/Aaa ⁽²⁾	DAILY LIQUIDITY	20%	AAA by 2 Of 3 RATINGS AGC.	2.11%
LOCAL AGENCY INVESTMENT FUND (LAIF)	NA	NA	NA	DAILY LIQUIDITY	Max \$50 million	NA	0.00%
CASH/DEPOSIT ACCOUNT	NA	NA	NA	NA	NA	NA	7.96%

¹ Money Market Mutual Funds maturity may be interpreted as a weighted average maturity not exceeding 60 days.

² Or must have an investment advisor with no fewer than 5 years experience and with assets under management of \$500,000,000 USD.

THIS COMPLETES THE REPORT REQUIREMENTS OF CALIFORNIA GOVERNMENT CODE 53646.

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
4540: NCD-A A/360											
05252WNR0	AUSTRALIA NZ BK GRP	10/10/2018	2.130	2.130	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.517	.529
			2.130	2.130	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.517	.529
4541: NCD-VAR-M A/360											
96121T6P8	WESTPAC.BANK NY	11/06/2018	1.891	1.891	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.593	.603
			1.891	1.891	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.593	.603
	Total Fund		1.583	1.632	6,735,819,733.18	6,723,896,582.30	99.325808	6,690,407,405.09	-33,489,177.21	1.111	1.143
Grand Total			1.583	1.632	6,735,819,733.18	6,723,896,582.30	99.325808	6,690,407,405.09	-33,489,177.21	1.111	1.143



The Mission Inn, Downtown Riverside. Digital Image. *The Mission Inn*. <http://www.missioninn.com/about-en.html>.



COUNTY OF RIVERSIDE
TREASURER-TAX COLLECTOR
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