

# City of Winter Springs, Florida



## Investment Performance Review Quarter Ended December 31, 2015

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# TAB I

## **Summary**

- The Federal Open Market Committee (FOMC) increased the target federal funds rate by 25 basis points (bps) (0.25%) at its December meeting — its first rate hike since 2006. In doing so, the FOMC stressed its intention to normalize rates at a gradual pace.
- The year ended with strong job growth momentum as the economy added 292,000 new jobs in December. This brought the 2015 tally to 2.65 million new jobs in total — enough to shrink the unemployment rate to 5%. Wage inflation edged up modestly, suggesting a chance for future inflation.
- While the Federal Reserve (Fed) took the first step to normalize interest rates, other central banks have continued to implement accommodative monetary policies. The European Central Bank (ECB) extended its monetary easing policy through the first quarter of 2017 and cut its deposit rate further into negative territory (-0.3%). The Bank of Japan (BOJ) and People’s Bank of China (PBOC) also remain accommodative.

### **Economic Snapshot**

- U.S. gross domestic product (GDP) expanded at a 2% rate in the third quarter, down from the second quarter due to a reduction in inventory accumulation.
- In a year-end bipartisan negotiation, Congress passed a \$1.1 trillion spending and tax budget, which also lifted the 40-year ban on U.S. crude oil exports.
- Global commodity prices continued to fall, increasing concerns over global growth and the sustainability of producers within the energy sector. Headlining this rout were oil prices, which continued to slide, sinking to less than \$35 per barrel in December — the lowest level since February 2009.
- China continued to allow the yuan to weaken, ending the year at its lowest level versus the U.S. dollar in nearly six years. The Chinese economy continued to slow — stoking market concern over the world’s second-largest economy — though it is expected to meet its major economic targets for the year.

## **Interest Rates**

- The new target range for the federal funds rate, as established by the FOMC, is 25 to 50 bps, ending the FOMC’s seven-year “zero interest rate policy.”
- Interest rates across the curve moved up significantly throughout the quarter, with the 10-year rising approximately 23 bps to 2.27% and the two-year moving almost 42 bps to 1.05%.
- On the shorter end, 12-month Treasury bills ticked up approximately 30 bps to 0.60%.

## **Sector Performance**

- U.S. Treasury benchmark returns were negative for all but the shortest maturities (six months and under), as rates rose across the curve. While the rate increase was less pronounced for longer maturities, their extended durations — and accompanying sensitivity to changes in rates — caused their performance to trail the greatest.
- Non-callable federal agency securities performed in line with comparable maturity Treasuries; callable securities modestly outperformed as their incremental yield helped as rates rose.
- Corporate yield spreads reversed the prior quarter’s widening, which helped the sector to outperform government-related sectors; however, absolute return was still negative. A-rated issuers were the best-performing quality category.
- Mortgage-backed securities (MBS) were among the strongest-performing sectors in the fourth quarter, aided by slowly rising long-term rates, which helped to slow prepayments; this was particularly true for higher coupon issues. MBS joined municipals as the lone sectors to produce positive performance for the quarter.

### Economic Snapshot

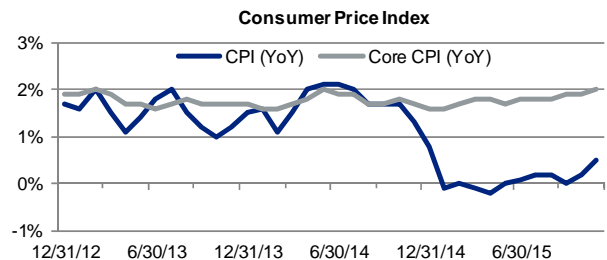
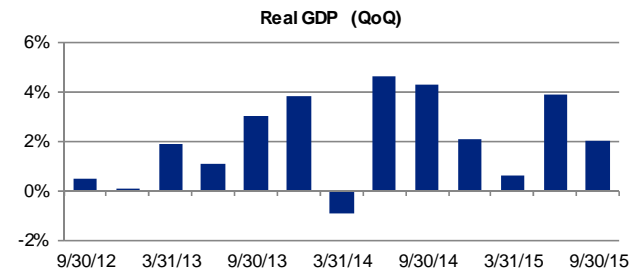
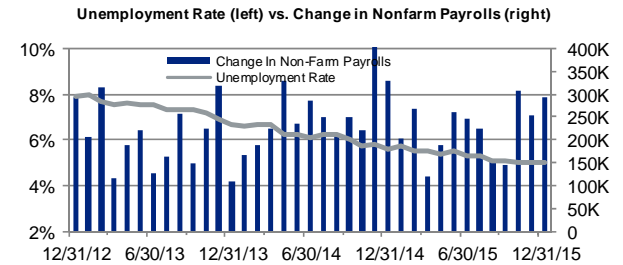
Labor Market		Latest	Sep 2015	Dec 2014
Unemployment Rate	Dec'15	5.0%	5.1%	5.6%
Change In Non-Farm Payrolls	Dec'15	292,000	145,000	329,000
Average Hourly Earnings (YoY)	Dec'15	2.5%	2.3%	1.8%
Personal Income (YoY)	Nov'15	4.4%	4.6%	5.2%
Initial Jobless Claims (week)	1/1/16	277,000	276,000	293,000

Growth				
Real GDP (QoQ SAAR)	2015Q3	2.0%	3.9% <sup>1</sup>	4.3% <sup>2</sup>
GDP Personal Consumption (QoQ SAAR)	2015Q3	3.0%	3.6% <sup>1</sup>	3.5% <sup>2</sup>
Retail Sales (YoY)	Nov'15	1.4%	2.2%	3.3%
ISM Manufacturing Survey (month)	Dec'15	48.2	50.2	55.1
Existing Home Sales SAAR (month)	Nov'15	4.76 mil.	5.55 mil.	5.07 mil.

Inflation / Prices				
Personal Consumption Expenditures (YoY)	Nov'15	0.4%	0.2%	0.8%
Consumer Price Index (YoY)	Nov'15	0.5%	0.0%	0.8%
Consumer Price Index Core (YoY)	Nov'15	2.0%	1.9%	1.6%
Crude Oil Futures (WTI, per barrel)	Dec 31	\$37.04	\$45.09	\$53.27
Gold Futures (oz.)	Dec 31	\$1,060	\$1,116	\$1,184



1. Data as of Second Quarter 2015

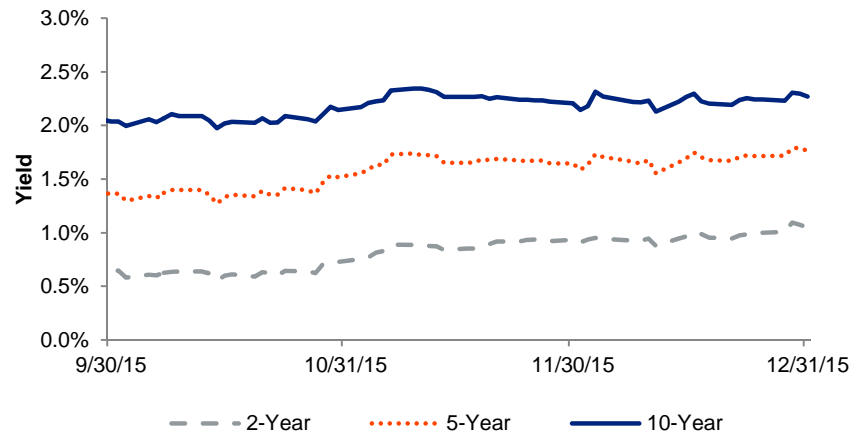
2. Data as of Third Quarter 2014

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

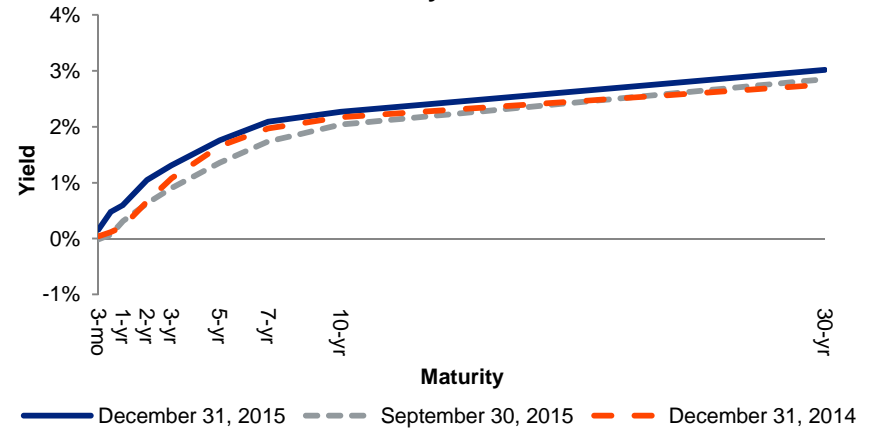
Source: Bloomberg

### Investment Rate Overview

U.S. Treasury Note Yields



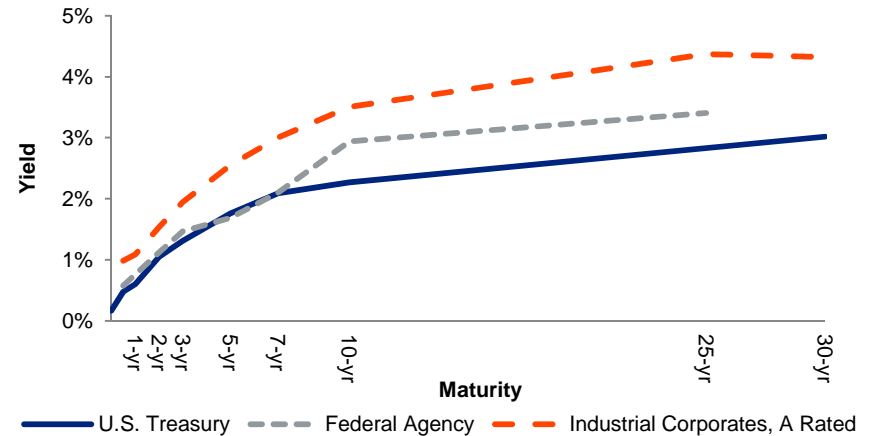
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	12/31/15	9/30/15	Change over Quarter	12/31/14	Change over Year
3-month	0.17%	(0.02%)	0.19%	0.04%	0.13%
1-year	0.60%	0.31%	0.29%	0.22%	0.38%
2-year	1.05%	0.63%	0.42%	0.67%	0.38%
5-year	1.76%	1.36%	0.40%	1.65%	0.11%
10-year	2.27%	2.04%	0.23%	2.17%	0.10%
30-year	3.02%	2.85%	0.17%	2.75%	0.27%

Yield Curves as of 12/31/2015



Source: Bloomberg

## BofA Merrill Lynch Index Returns

	As of 12/31/2015		Returns for Periods ended 12/31/2015		
	Duration	Yield	3 Month	1 Year	3 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.87	1.06%	(0.44%)	0.54%	0.51%
Federal Agency	1.73	1.14%	(0.37%)	0.69%	0.61%
U.S. Corporates, A-AAA rated	1.90	1.82%	(0.05%)	1.16%	1.22%
Agency MBS (0 to 3 years)	1.89	1.46%	0.98%	1.68%	1.20%
Municipals	1.84	0.96%	(0.08%)	0.76%	0.85%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.70	1.29%	(0.66%)	0.98%	0.67%
Federal Agency	2.20	1.31%	(0.49%)	0.97%	0.76%
U.S. Corporates, A-AAA rated	2.71	2.13%	(0.16%)	1.52%	1.59%
Agency MBS (0 to 5 years)	3.35	2.23%	0.16%	1.22%	1.69%
Municipals	2.52	1.15%	0.08%	1.20%	1.24%
<b>Master Indices (Maturities 1 Year or Greater)</b>					
U.S. Treasury	6.19	1.77%	(0.93%)	0.83%	1.09%
Federal Agency	3.75	1.69%	(0.65%)	0.99%	1.05%
U.S. Corporates, A-AAA rated	6.64	3.08%	(0.09%)	0.67%	1.97%
Agency MBS (0 to 30 years)	4.53	2.63%	(0.06%)	1.46%	2.00%
Municipals	6.74	2.34%	1.72%	3.55%	3.35%

Returns for periods greater than one year are annualized

Source: BofA Merrill Lynch Indices

**Disclosures**

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# TAB II

## Executive Summary

## PORTFOLIO STRATEGY

- The City's General City Portfolio is of high credit quality and invested in U.S. Treasury, Federal Agency, commercial paper, and municipal securities.
- The General City Portfolio continues to provide the City with favorable yield relative to the benchmark. At quarter end, the portfolio had a Yield to Maturity at Cost of 0.62%. The Yield to Maturity of its benchmark, the Merrill Lynch 1 Year U.S. Treasury Note Index was 0.76%.
- Ahead of the December FOMC meeting, market expectations were for an initial Fed Funds hike, supported by assurances that future policy changes would be gradual. Market reaction after the FOMC's announcement to raise the target range for the federal funds rate was relatively subdued, evidence that the action was in line with these expectations, a goal of the FOMC's effort to provide transparency to investors.
- Recent FOMC projections indicate that Committee members anticipate that three or four rate hikes may be appropriate in 2016 – projections that most market participants believe to be overstated. We believe that expectations for low inflation will limit this year's rate hikes to two or three, and that short term yields will trend only modestly higher in the near term. We expect long-term rates to remain within modest ranges, resulting in further flattening of the yield curve.
- We maintain the outlook that the economy will continue to expand at a moderate pace in the intermediate term. We will continue to monitor any spillover effect that modest global growth and muted inflation may have on the U.S. economy. These factors will help justify the FOMC's stated intention to remain patient in the pace at which it raises the federal funds rate.
- As always, we strive to maintain the safety of principal, while at the same time seeking opportunities to add value. Our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

The City's Investment Statistics

<u>Account Name</u>	<u>Amortized Cost<sup>1,2,3</sup> December 31, 2015</u>	<u>Amortized Cost<sup>1,2,3</sup> September 30, 2015</u>	<u>Market Value<sup>1,2,3</sup> December 31, 2015</u>	<u>Market Value<sup>1,2,3</sup> September 30, 2015</u>	<u>Duration (Years) December 31, 2015</u>
General City Account Portfolio	\$45,157,530.65	\$39,293,635.26	\$45,066,462.13	\$39,320,731.60	0.92
Fidelity Institutional MMF (Fund #257) <sup>6</sup>	70,976.86	79,609.29	70,976.86	79,609.29	0.003
Money Market Fund - SBA Florida Prime	216,371.56	216,210.00	216,371.56	216,210.00	36 Days
5/3 Bank Cash for Operations - depository	1,969,568.09	3,311,527.28	1,969,568.09	3,311,527.28	0.003
Water & Sewer 2000 - Fidelity Institutional MMF (Account #364) <sup>6</sup>	716,964.49	716,946.62	716,964.49	716,946.62	0.003
Water & Sewer 2000 - Money Market Fund - SBA Florida Prime	6,379.75	6,374.96	6,379.75	6,374.96	36 Days
<b>Total</b>	<b>\$48,137,791.40</b>	<b>\$43,624,303.41</b>	<b>\$48,046,722.88</b>	<b>\$43,651,399.75</b>	

<u>Account Name</u>	<u>Yield to Maturity at Cost<sup>4</sup> December 31, 2015</u>	<u>Yield to Maturity at Cost<sup>4</sup> September 30, 2015</u>	<u>Yield to Maturity at Market December 31, 2015</u>	<u>Yield to Maturity at Market September 30, 2015</u>	<u>Duration (Years) September 30, 2015</u>
General City Account Portfolio	0.62%	0.48%	0.80%	0.39%	0.80
Fidelity Institutional MMF (Fund #257) <sup>6</sup>	0.01%	0.01%	0.01%	0.01%	0.003
Money Market Fund - SBA Florida Prime	0.35%	0.25%	0.35%	0.25%	28 Days
5/3 Bank Cash for Operations - depository	N/A	N/A	N/A	N/A	0.003
Water & Sewer 2000 - Fidelity Institutional MMF(Account #364) <sup>6</sup>	0.01%	0.01%	0.01%	0.01%	0.003
Water & Sewer 2000 - Money Market Fund - SBA Florida Prime	0.35%	0.25%	0.35%	0.25%	28 Days
<b>Weighted Average Yield</b>	<b>0.58%</b>	<b>0.43%</b>	<b>0.75%</b>	<b>0.35%</b>	

**Benchmarks**

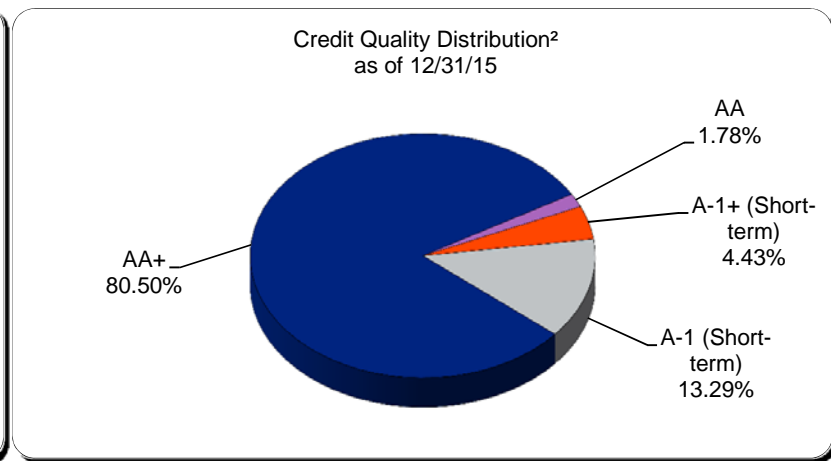
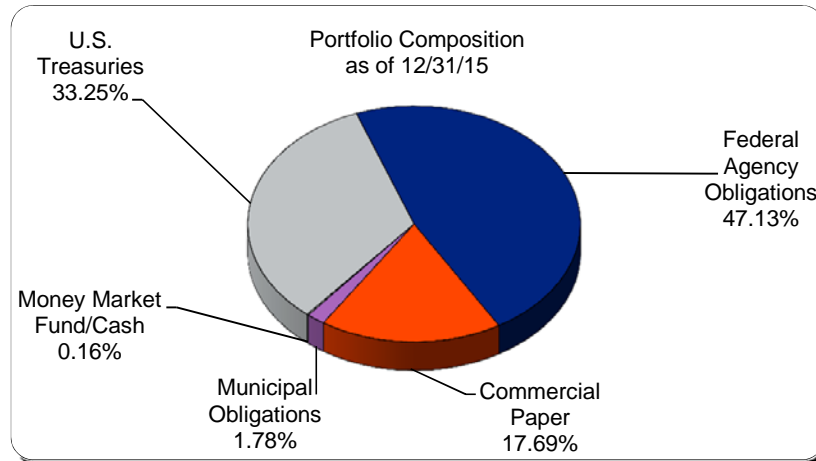
	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Merrill Lynch 1 Year U.S. Treasury Note Index <sup>5</sup>	0.76%	0.36%

Notes:

1. On a trade-date basis, including accrued interest.
2. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
3. Excludes any money market fund/cash balances held in custodian account.
4. Past performance is not indicative of future results.
5. Source Bloomberg. Benchmark is pursuant to the Investment Policy.
6. The full name of the Fidelity account is the Fidelity Institutional Money Market Fund Government Portfolio.

General City Account Portfolio Composition and Credit Quality Characteristics

<u>Security Type<sup>1</sup></u>	<u>December 31, 2015</u>	<u>% of Portfolio</u>	<u>September 30, 2015</u>	<u>% of Portfolio</u>
U.S. Treasuries	\$15,006,954.17	33.25%	\$6,011,405.11	15.26%
Federal Agencies	21,272,715.13	47.13%	22,414,133.66	56.89%
Commercial Paper	7,985,247.50	17.69%	10,094,331.50	25.62%
Certificates of Deposit	0.00	0.00%	0.00	0.00%
Bankers Acceptances	0.00	0.00%	0.00	0.00%
Repurchase Agreements	0.00	0.00%	0.00	0.00%
Municipal Obligations	801,545.33	1.78%	800,861.33	2.03%
Corporate Notes/Bonds	0.00	0.00%	0.00	0.00%
Corporate Notes/Bonds - FDIC Insured	0.00	0.00%	0.00	0.00%
Mortgage Backed	0.00	0.00%	0.00	0.00%
Money Market Fund/Cash	70,976.86	0.16%	79,609.29	0.20%
<b>Totals</b>	<b>\$45,137,438.99</b>	<b>100.00%</b>	<b>\$39,400,340.89</b>	<b>100.00%</b>

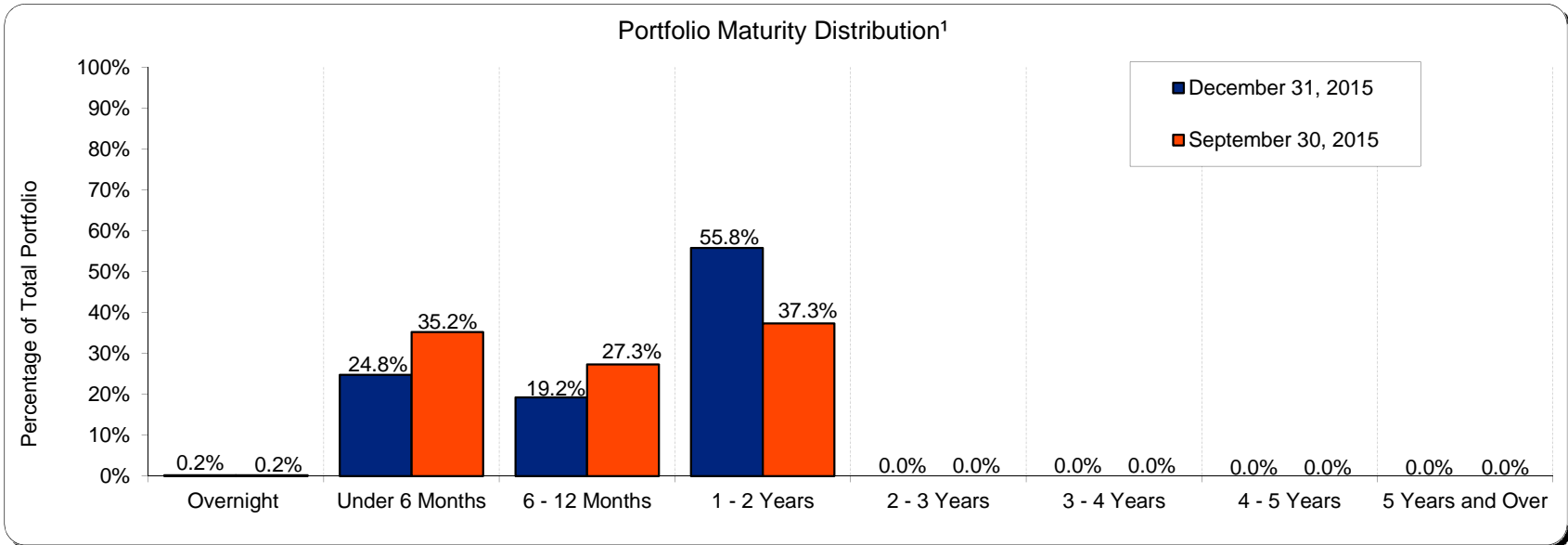


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

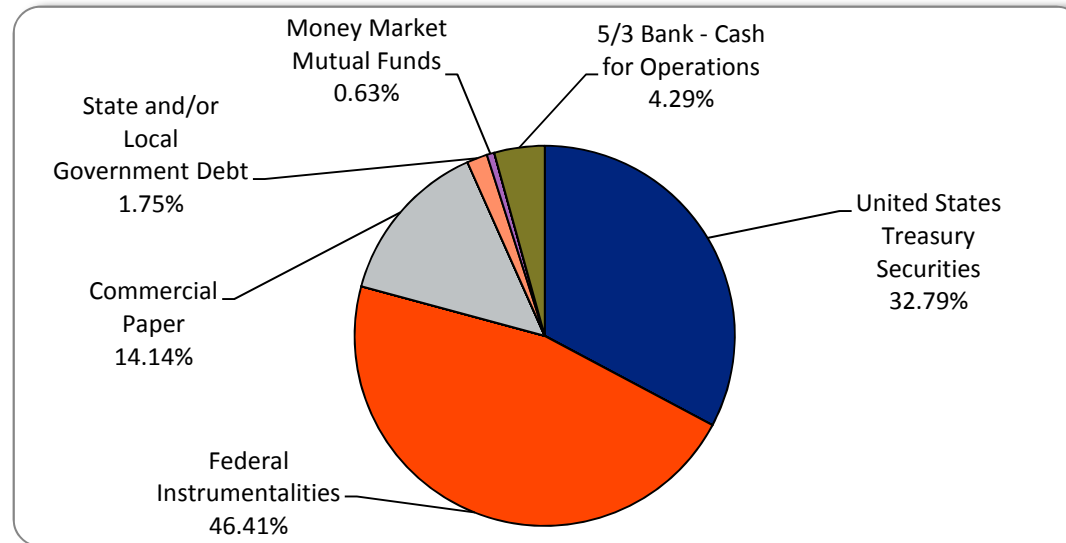
General City Account Portfolio Maturity Distribution

<u>Maturity Distribution<sup>1</sup></u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Overnight (Money Market Fund)	\$70,976.86	\$79,609.29
Under 6 Months	11,184,311.98	13,861,895.56
6 - 12 Months	8,685,452.25	10,759,740.96
1 - 2 Years	25,196,697.90	14,699,095.08
2 - 3 Years	0.00	0.00
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
<b>Totals</b>	<b>\$45,137,438.99</b>	<b>\$39,400,340.89</b>



Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.



Security Type <sup>2</sup>	Amortized Cost (Includes Interest)	Allocation Percentage	Notes	Permitted by Policy	In Compliance
United States Treasury Securities	15,048,757.86	32.79%		100%	YES
United States Government Agency Securities	-	0.00%		75%	YES
Federal Instrumentalities	21,299,821.03	46.41%		80%	YES
Mortgage-Backed Securities	-	0.00%		0%	YES
Certificates of Deposit/Savings Account	-	0.00%		25%	YES
Repurchase Agreements	-	0.00%		50%	YES
Commercial Paper	6,489,456.80	14.14%		30%	YES
Corporate Notes - FDIC Insured	-	0.00%		50%	YES
Bankers' Acceptances	-	0.00%		30%	YES
State and/or Local Government Debt	801,720.00	1.75%		20%	YES
Money Market Mutual Funds	287,348.42	0.63%		100%	YES
Intergovernmental Investment Pool	-	0.00%		25%	YES
Bank of America - Cash for Operations	-	0.00%	3	100%	YES
5/3 Bank - Cash for Operations	1,969,568.09	4.29%	3	100%	YES

Notes:

1. Does not include bond proceeds.
2. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
3. Managed by the City.

<b>Individual Issuer Breakdown</b>	<b>Amortized Cost (Includes Interest)</b>	<b>Allocation Percentage</b>	<b>Notes</b>	<b>Permitted by Policy</b>	<b>In Compliance</b>
Government National Mortgage Association (GNMA)	-	0.00%		<b>50%</b>	YES
Federal Farm Credit Bank (FFCB)	2,303,427.34	5.02%		<b>25%</b>	YES
Federal Home Loan Bank (FHLB)	7,705,651.59	16.79%		<b>25%</b>	YES
Federal National Mortgage Association (FNMA)	6,681,028.01	14.56%		<b>25%</b>	YES
Federal Home Loan Mortgage Corporation (FHLMC)	4,609,714.09	10.04%		<b>25%</b>	YES
State of Louisiana Municipal Bonds	801,720.00	1.75%		<b>20%</b>	YES
Bank of Tokyo Mitsubishi, Inc. Commercial Paper	1,497,990.42	3.26%		<b>10%</b>	YES
BNP Paribas Commercial Paper	1,495,829.16	3.26%		<b>10%</b>	YES
JP Morgan Chase & Company Commercial Paper	1,497,375.00	3.26%		<b>10%</b>	YES
Toyota Motor Corporation Commercial Paper	1,998,262.22	4.35%		<b>10%</b>	YES
Fidelity Institutional Money Market Fund - Gov't	70,976.86	0.15%		<b>25%</b>	YES
Money Market Fund - Florida Prime (SBA)	216,371.56	0.47%	3	<b>25%</b>	YES

## Notes:

1. Does not include bond proceeds.
2. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
3. Managed by the City.

# TAB III





## Managed Account Summary Statement

For the Month Ending **December 31, 2015**

WINTER SPRINGS GENERAL CITY ACCOUNT - 94730001

### Transaction Summary - Managed Account

<b>Opening Market Value</b>	<b>\$41,213,396.35</b>
Maturities/Calls	(1,500,000.00)
Principal Dispositions	(3,039,879.85)
Principal Acquisitions	8,303,096.14
Unsettled Trades	0.00
Change in Current Value	(54,474.20)
<b>Closing Market Value</b>	<b>\$44,922,138.44</b>

### Cash Transactions Summary - Managed Account

Maturities/Calls	1,500,000.00
Sale Proceeds	3,041,564.23
Coupon/Interest/Dividend Income	1.48
Principal Payments	0.00
Security Purchases	(8,336,001.22)
Net Cash Contribution	3,800,000.00
Reconciling Transactions	0.00

### Earnings Reconciliation (Cash Basis) - Managed Account

Interest/Dividends/Coupons Received	1,685.86
Less Purchased Interest Related to Interest/Coupons	(32,905.08)
Plus Net Realized Gains/Losses	5,261.67
<b>Total Cash Basis Earnings</b>	<b>(\$25,957.55)</b>

### Cash Balance

**Closing Cash Balance** **\$70,976.79**

### Earnings Reconciliation (Accrual Basis)

	<b>Total</b>
Ending Amortized Value of Securities	45,013,206.96
Ending Accrued Interest	144,323.69
Plus Proceeds from Sales	3,041,564.23
Plus Proceeds of Maturities/Calls/Principal Payments	1,500,000.00
Plus Coupons/Dividends Received	1.48
Less Cost of New Purchases	(8,336,001.22)
Less Beginning Amortized Value of Securities	(41,264,224.61)
Less Beginning Accrued Interest	(78,152.87)
<b>Total Accrual Basis Earnings</b>	<b>\$20,717.66</b>