



**Date:** September 25, 2015  
**To:** Mayor and City Council  
**From:** City Manager  
**By:** Director of Finance  
**Subject:** 2015 Second Quarter Investment Report

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In accordance with California Government Code and the City's Statement of Investment Policy, I am transmitting for your review the quarterly investment report for the period of April 1 – June 30, 2015 (2Q2015). The City's Investment Advisory Committee (IAC) reviewed and approved this report during their quarterly meeting held on July 27, 2015. The attached reports provide a summary of market and economic conditions, the composition of the City's portfolio, investment performance and investment strategy. Monthly summaries of all of the City's account holdings along with the quarterly reports are posted on the Finance Department's web page: <http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/> under the "Documents" tab.

The City's investment portfolio (pooled cash) totaled \$203.7 million as of June 30, 2015; \$122.2 million was invested through the City's investment advisor, The PFM Group; \$66.4 million was on deposit in the Local Agency Investment Fund (LAIF); and the remaining portfolio balance of \$15.1 million resided in the City's general checking account. Cash flow needs cause the balances of the LAIF and general checking accounts to fluctuate monthly.

The interest earned on the City's portfolio slightly exceeds the benchmark used for comparison (1-3 Year U.S. Treasury Index), and is reflective of the prolonged low interest conditions in the market. For 2Q2015, the funds on deposit with LAIF earned .28% and the portion of the portfolio actively managed by The PFM Group earned about .90% over the previous 12 months. The balance held in the City's general checking account does not earn interest. The City's investments are generally within a 1-3 year range and are consistent with the City's Investment Policy.

The IAC approved at its July meeting the possibility of some longer-term holdings (4 and 5 year range) as appropriate and in accordance with the City's investment policy – as well as adjusting the benchmark index to the 1-5 Year U.S. Treasury Index pursuant to the attached memo from PFM. Additionally, the IAC will consider at its next meeting a possible increase to the amount of corporate investments it allows (currently at 5% of portfolio managed by The PFM Group).

Pursuant to provision (3) of California Government Code section 53646, the City establishes that it is able to meet its pooled expenditure requirements for the next six months.

**Attachments:**

Second Quarter 2015 Performance Investment Report by The PFM Group  
Second Quarter 2015 LAIF Performance Report  
April 22, 2015 memorandum from The PFM Group "Potential Investment Benchmark Change"



## City of Hayward

### Performance Review Second Quarter 2015

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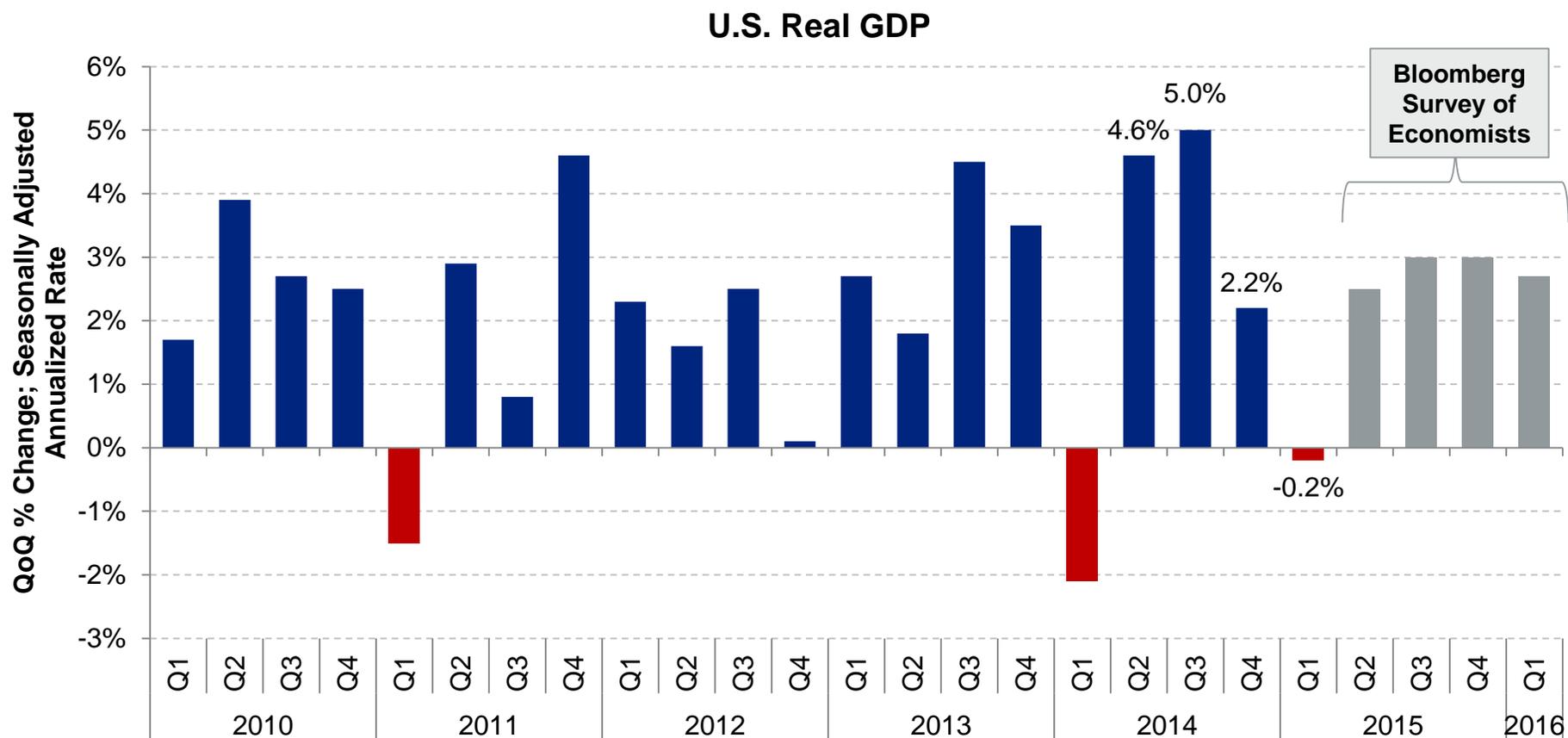
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**The PFM Group**  
Financial & Investment Advisors

# U.S. 1<sup>st</sup> Quarter GDP Revised Upward

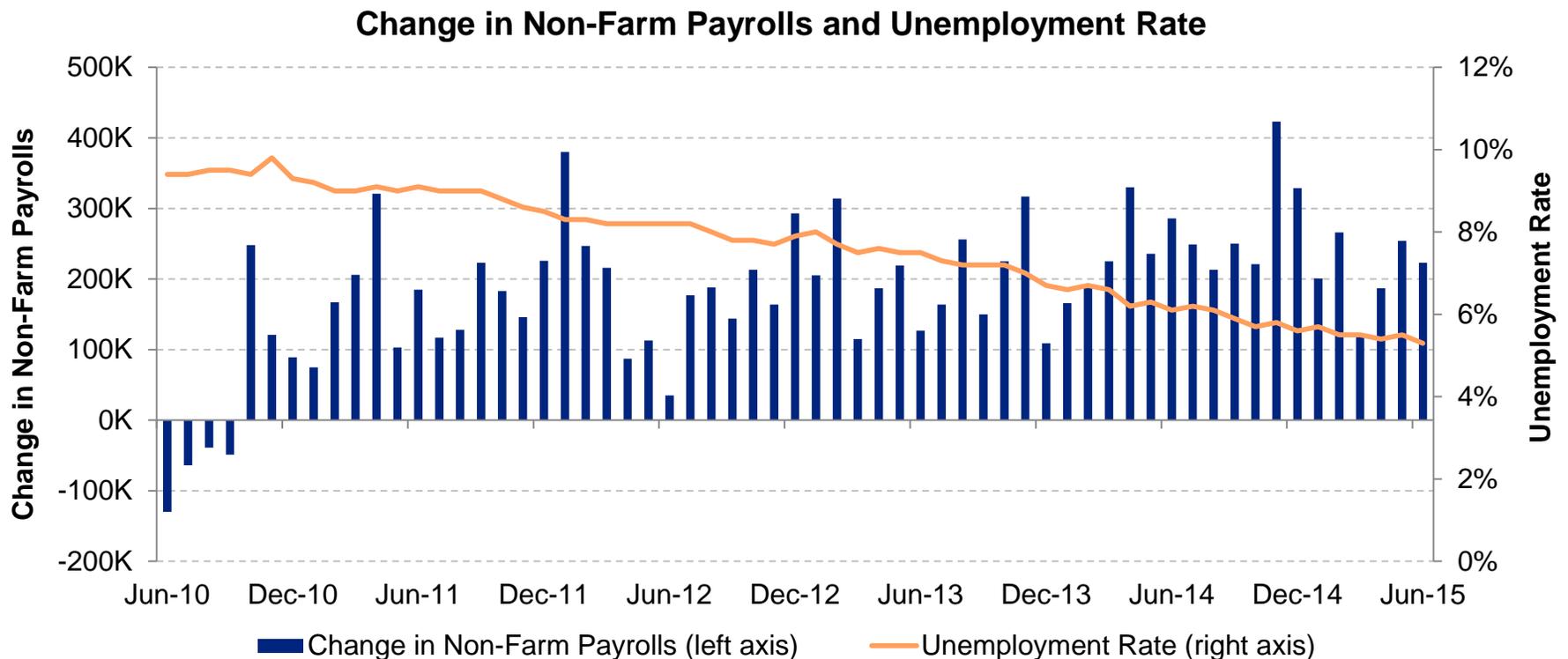
- U.S. GDP contracted at a -0.2% annualized rate in the first quarter, revised from a previously reported 0.7% loss. The decline was partially offset by better-than-expected consumer spending.
- Growth is expected to have rebounded in the 2<sup>nd</sup> quarter.



Source: Bureau of Economic Analysis

# U.S. Job Growth Steadily Improved

- The U.S. labor market strengthened in the 2<sup>nd</sup> quarter after a disappointing start to the year.
- The unemployment rate fell to a seven-year low of 5.3%. This is partially attributable to more workers leaving the labor force.
- While the participation rate declined, job growth improved as monthly non-farm payrolls averaged 221,000 new jobs in the 2<sup>nd</sup> quarter versus 195,000 in the 1<sup>st</sup> quarter.



Source: Bureau of Labor Statistics

# Potential “Grexit” Rattled Markets

- The potential for a Greek default and exit from the Eurozone caused a volatility spike at quarter-end.
- The Greek government called for a referendum on the latest bailout proposal.
- Eurozone leaders warned that a ‘no’ vote would lead to Greece leaving the Eurozone.

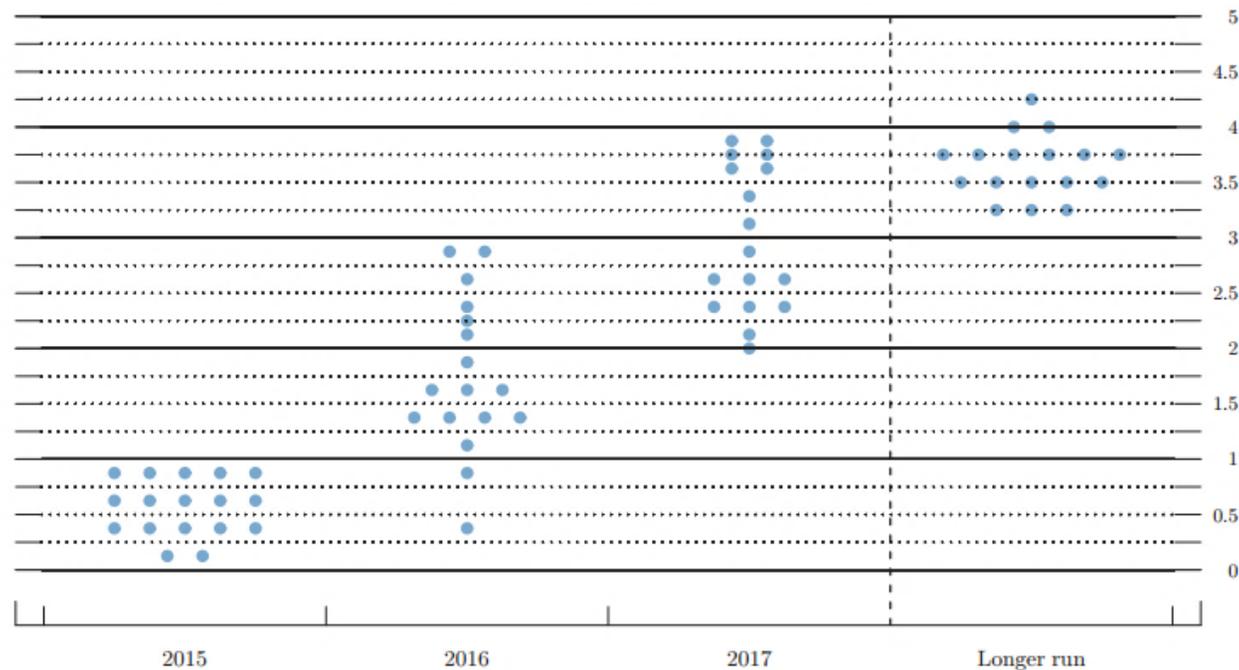


Source: Bloomberg

# FOMC Remained Non-Committal on Rate Hike Timing

- The Committee reaffirmed its view that the 0%–0.25% target range for the federal funds rate remains appropriate.
- A new dot plot was issued by the Committee which suggested a lower magnitude of rate increases than previous forecasts.
- Most market participants expect a rate hike before the end of the year.

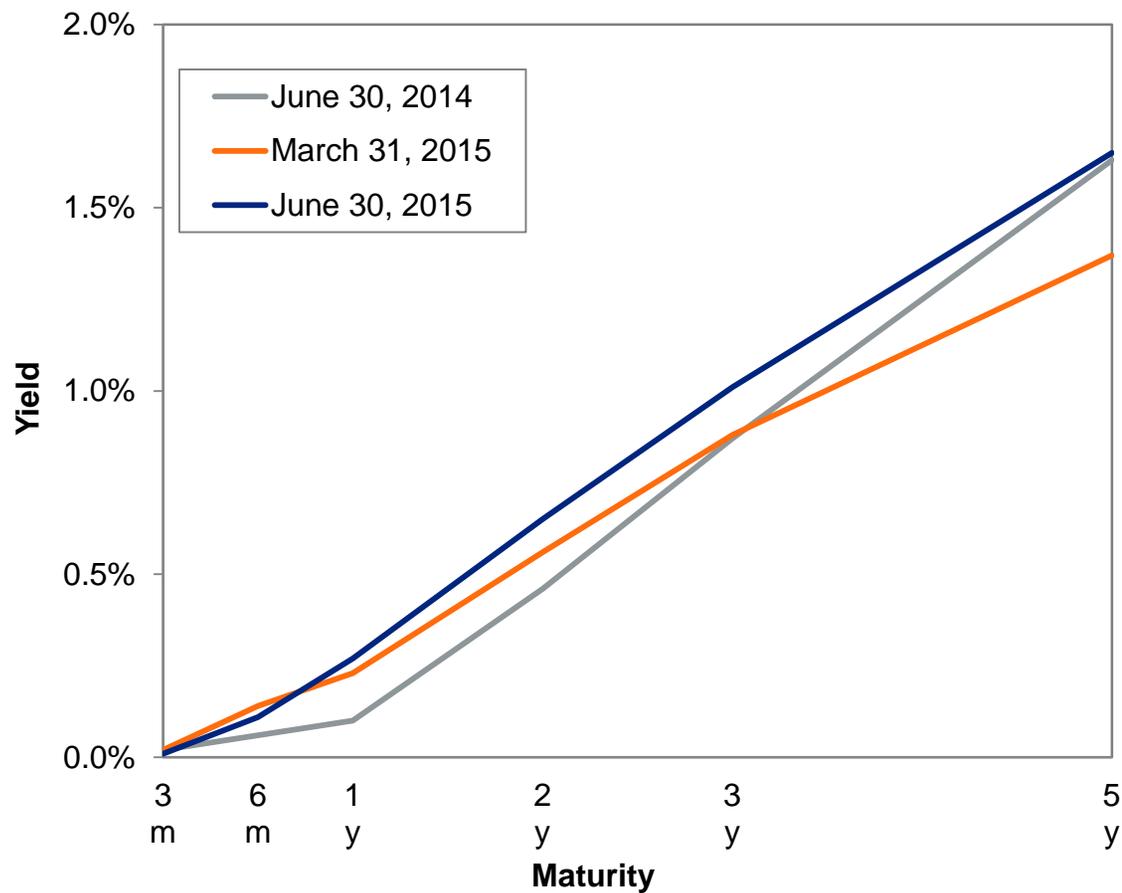
Dot Plot from FOMC's June 16-17 Meeting



Source: Federal Reserve

# Yield Curve Steepened as Fed Rate Hike Looms

U.S. Treasury Yield Curve



	6/30/14	3/31/15	6/30/15
<b>3 Month</b>	0.02%	0.02%	0.01%
<b>6 Month</b>	0.06%	0.14%	0.11%
<b>1 Year</b>	0.10%	0.23%	0.27%
<b>2 Year</b>	0.46%	0.56%	0.65%
<b>3 Year</b>	0.87%	0.88%	1.01%
<b>5 Year</b>	1.63%	1.37%	1.65%

Source: Bloomberg

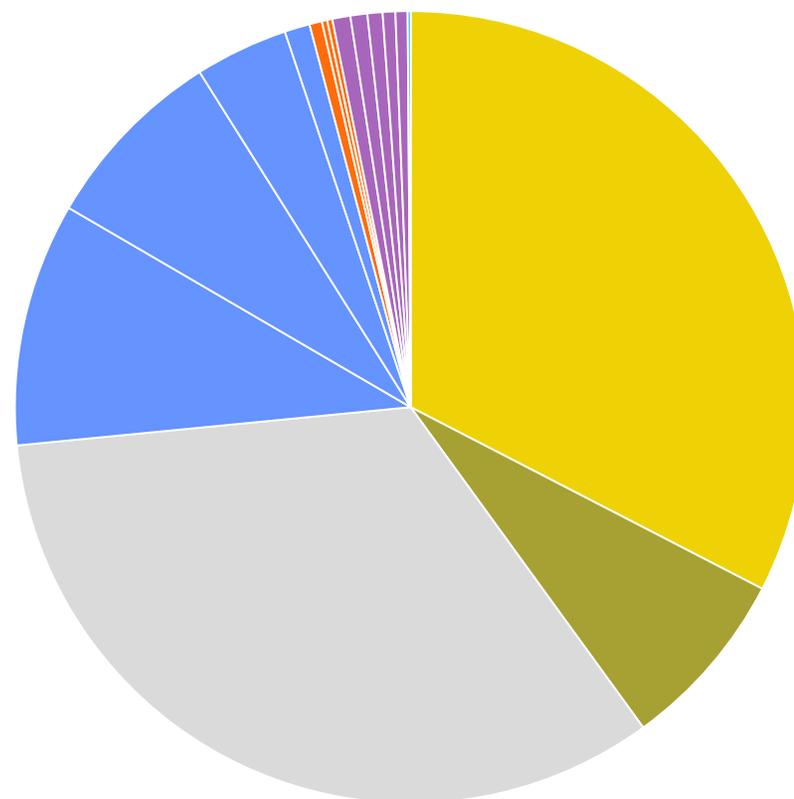
# Portfolio Complies with Government Code and the City's Investment Policy

Security Type	Market Value 06/30/15	% of Portfolio	Change Since 03/31/15	% Permitted by Policy	In Compliance
U.S. Treasuries	\$68,152,667	33%	4%	100%	✓
Federal Agencies	\$40,648,332	20%	7%	100%	✓
<i>Non-Callable</i>	\$36,802,883	18%	7%		
<i>Callable</i>	\$3,845,448	2%	-0.3%		
Supranationals	\$1,009,104	0%	0.5%	30%	✓
Municipal Bonds	\$1,917,279	0.9%	-0.1%	20%	✓
Asset-Backed Securities	\$5,284,705	3%	2%	20%	✓
Certificates of Deposit	\$0	0%	0%	30%	✓
Corporate Notes	\$5,212,317	2.6%	0.3%	30%	✓
Commercial Paper	\$0	0%	0%	25%	✓
<b>Total Securities</b>	<b>\$122,224,402</b>	<b>60%</b>			
LAIF	\$66,373,265	33%	-16%	\$50 Million per Account <sup>1</sup>	✓
Money Market Fund	\$0	0%	0%	20%	✓
Cash Deposits	\$15,112,716	7%	2%	100%	✓
<b>Total Liquidity</b>	<b>\$81,485,981</b>	<b>40%</b>			
<b>Total Investments</b>	<b>\$203,710,383</b>	<b>100%</b>			

- Numbers may not add to 100% due to rounding.
- 1. City maintains three separate LAIF accounts.

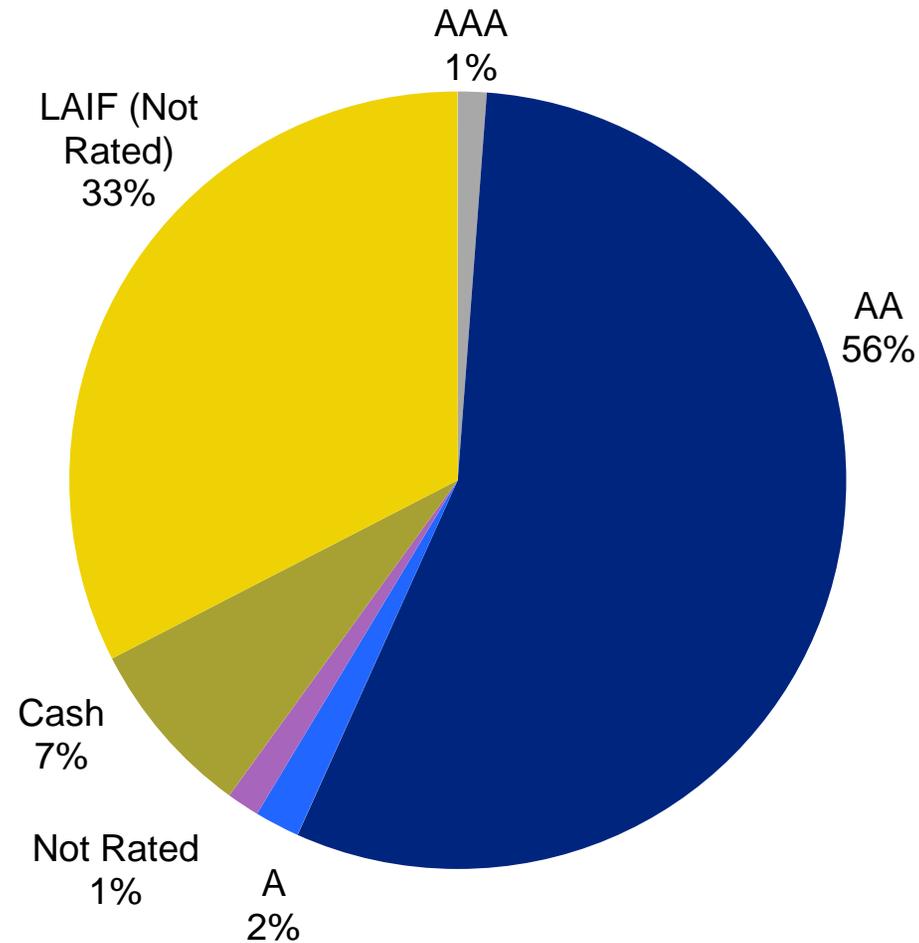
# Portfolio Issuer Distribution

Issuer	Amount	%
LAIF	\$ 66,373,265	33%
Cash	\$ 15,112,716	7%
U.S. Treasury	\$ 68,152,667	33%
FHLB	\$ 20,237,766	10%
FNMA	\$ 15,596,083	8%
FHLMC	\$ 7,750,468	4%
Federal Agricultural Mortgage Corp	\$ 2,103,461	1%
Orange County, CA	\$ 1,041,210	1%
CA Earthquake Authority	\$ 444,271	0.2%
State of Connecticut	\$ 431,798	0.2%
Walt Disney Co.	\$ 1,500,495	1%
Exxon Mobil	\$ 1,404,699	1%
Wells Fargo	\$ 1,256,249	1%
Bank of New York Mellon	\$ 1,050,874	1%
Ford Credit Auto Owner Trust	\$ 245,258	0.1%
IBRD	\$ 1,009,104	0.5%
	<b>\$203,710,383</b>	<b>100%</b>



- As of June 30, 2015.
- Numbers may not add to 100% due to rounding.

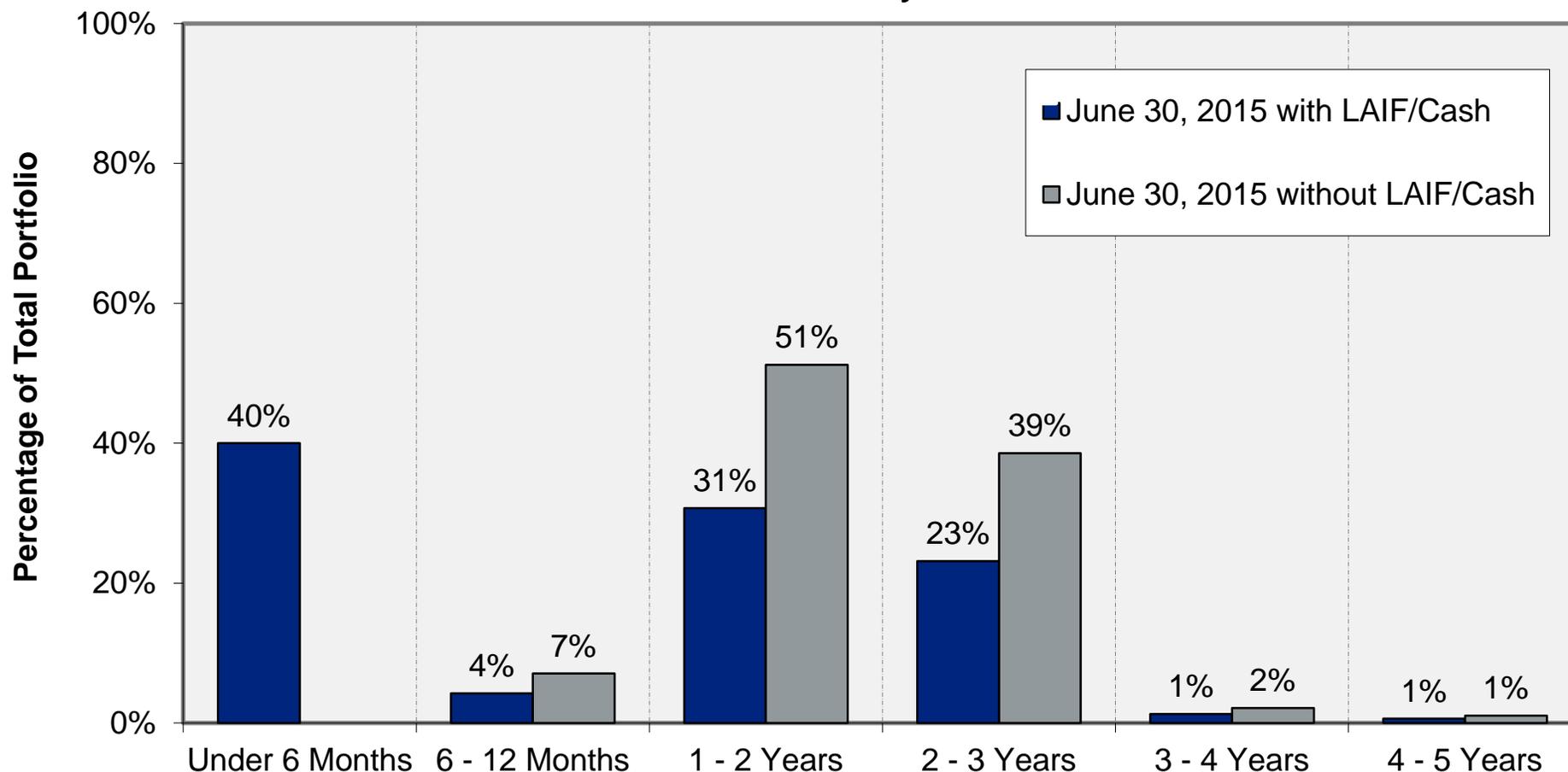
# Portfolio Credit Distribution



- As of June 30, 2015.
- Ratings by Standard & Poor's.
- Numbers may not add to 100% due to rounding.

# Aggregate Portfolio Maturity Distribution

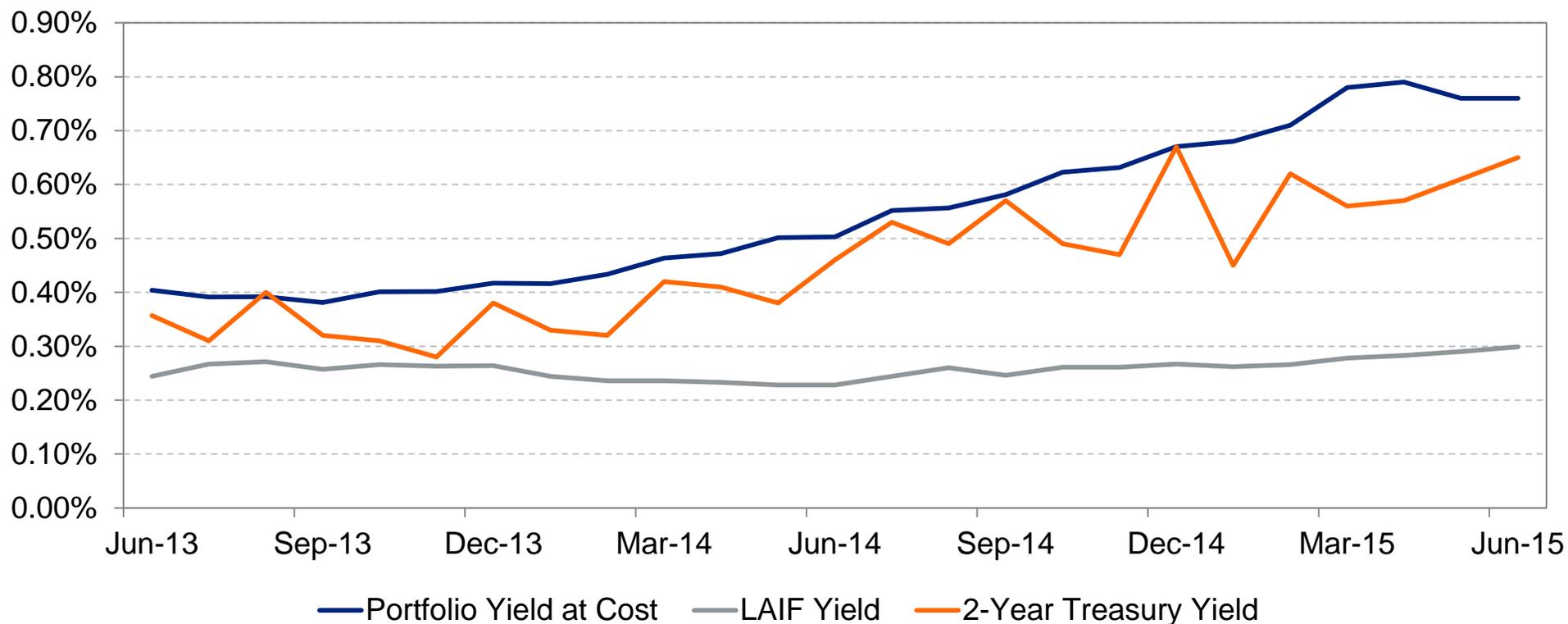
## Portfolio Maturity Distribution



- Includes cash and LAIF balances.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- Numbers may not add to 100% due to rounding.

# Portfolio Earnings Remain Strong

Portfolio Yield vs. LAIF Yield and 2-Year Treasury  
June 2013 – June 2015



Source: California State Treasurer LAIF website

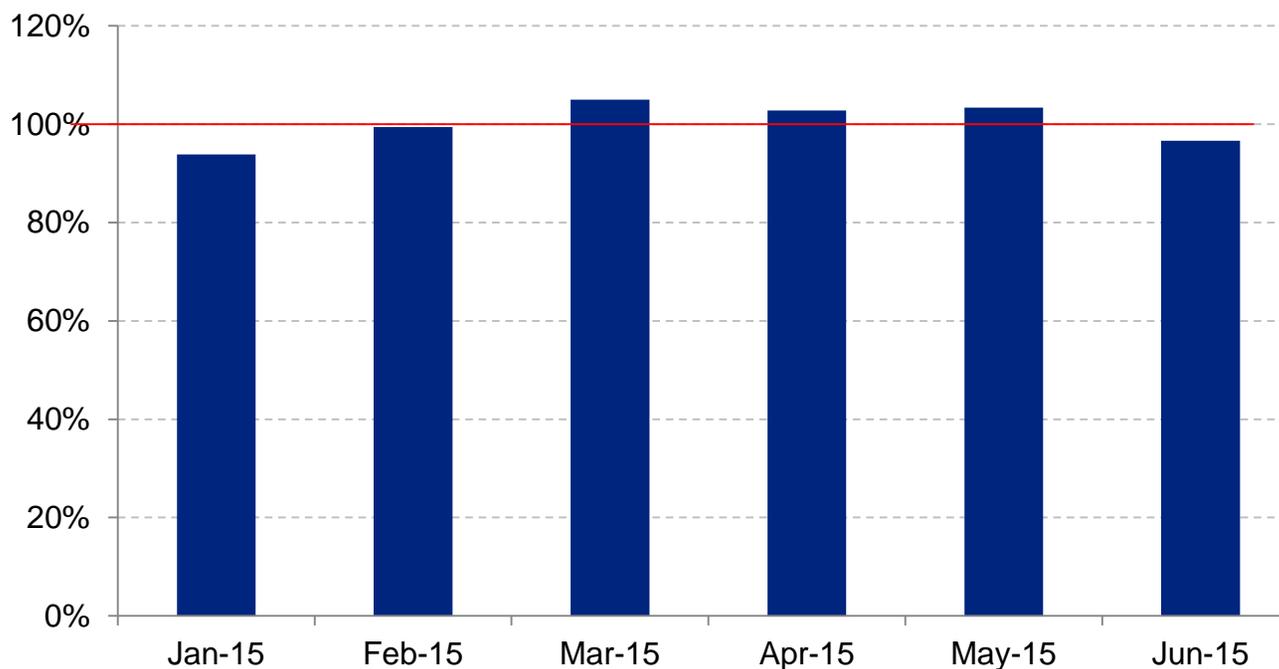
# Second Quarter 2015 Strategy Recap

- We maintained a duration-neutral approach and focused purchases on areas of the yield curve that offered the most value for the City.
- We integrated additional funds in a way that maintained the characteristics of the portfolio.
- We added diversification to the portfolio with the purchase of Mortgage-Backed and Supranational securities.
- We leveraged our size to act as lead issuer for a new security that improved the City's earnings.

# Kept Duration Close to Benchmark

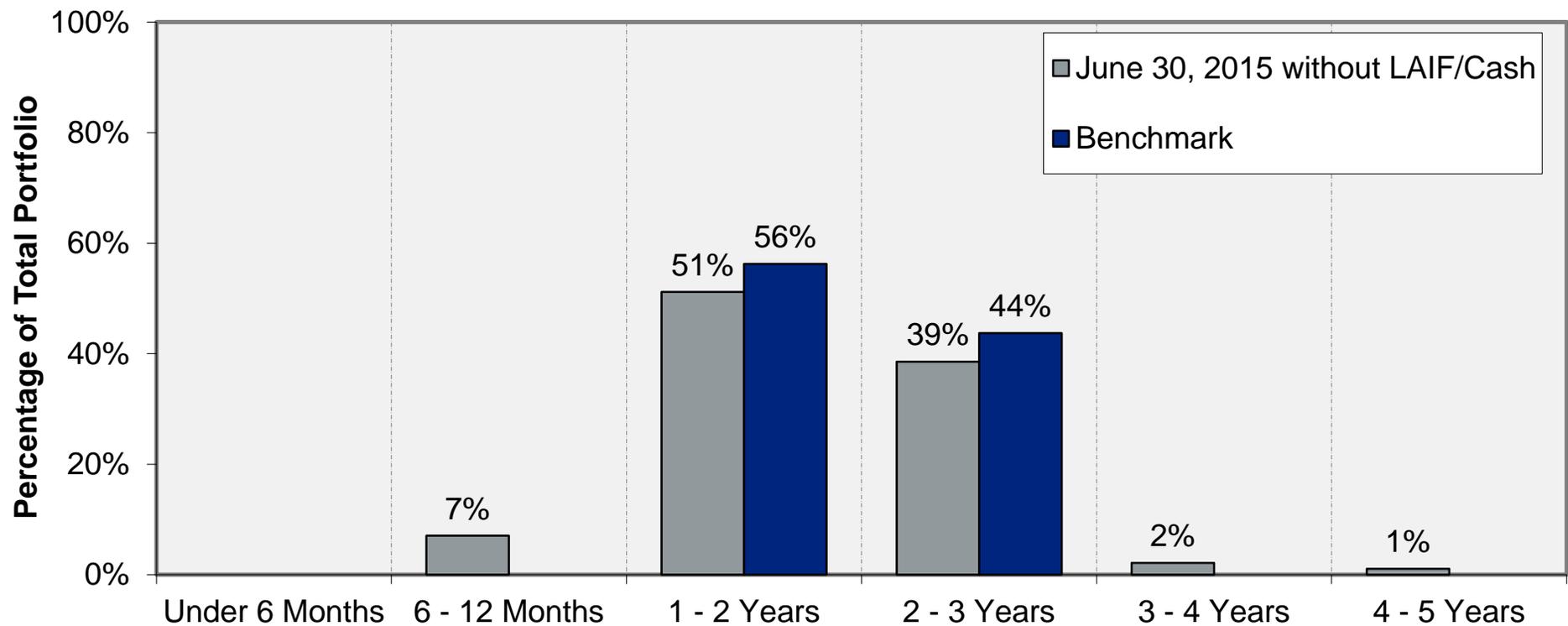
- We maintained a duration-neutral strategy with the expectation that the path for rate hikes will be longer and less steep than in past interest rate cycles.
- Purchases that were made to keep duration close to the benchmark had maturities in the 2-3 year range.
- These purchases captured the steepest portion of the yield curve.

**City's Portfolio Duration  
as Percentage of Benchmark**



- Source: Bloomberg.
- Benchmark reflects the Merrill Lynch 1-3 Year U.S. Treasury Index.

# Maturity Distribution vs. Benchmark Distribution



- Excludes cash and LAIF balances.
- Benchmark represents Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.
- Numbers may not add to 100% due to rounding.

# Incorporated Additional Funds

- In May, we integrated additional assets into the current strategy.
- We spread purchases across various sectors and maturities in order to keep the portfolio balanced.

Settle Date	Issuer	Maturity Date	Par Value	S&P Rating	Yield to Maturity (At Market)
5/4/2015	U.S. Treasury Notes	4/30/2017	7,500,000	AA+	0.61%
5/4/2015	U.S. Treasury Notes	8/31/2017	7,500,000	AA+	0.75%
5/4/2015	U.S. Treasury Notes	5/31/2018	5,000,000	AA+	1.00%
5/4/2015	FHLB Notes	11/23/2016	7,500,000	AA+	0.56%
5/4/2015	FNMA Notes	9/28/2016	7,500,000	AA+	0.51%
5/5/2015	FHLB Notes	12/9/2016	3,500,000	AA+	0.59%
5/5/2015	Wells Fargo Notes	1/16/2018	1,250,000	A+	1.42%

Source: Bloomberg

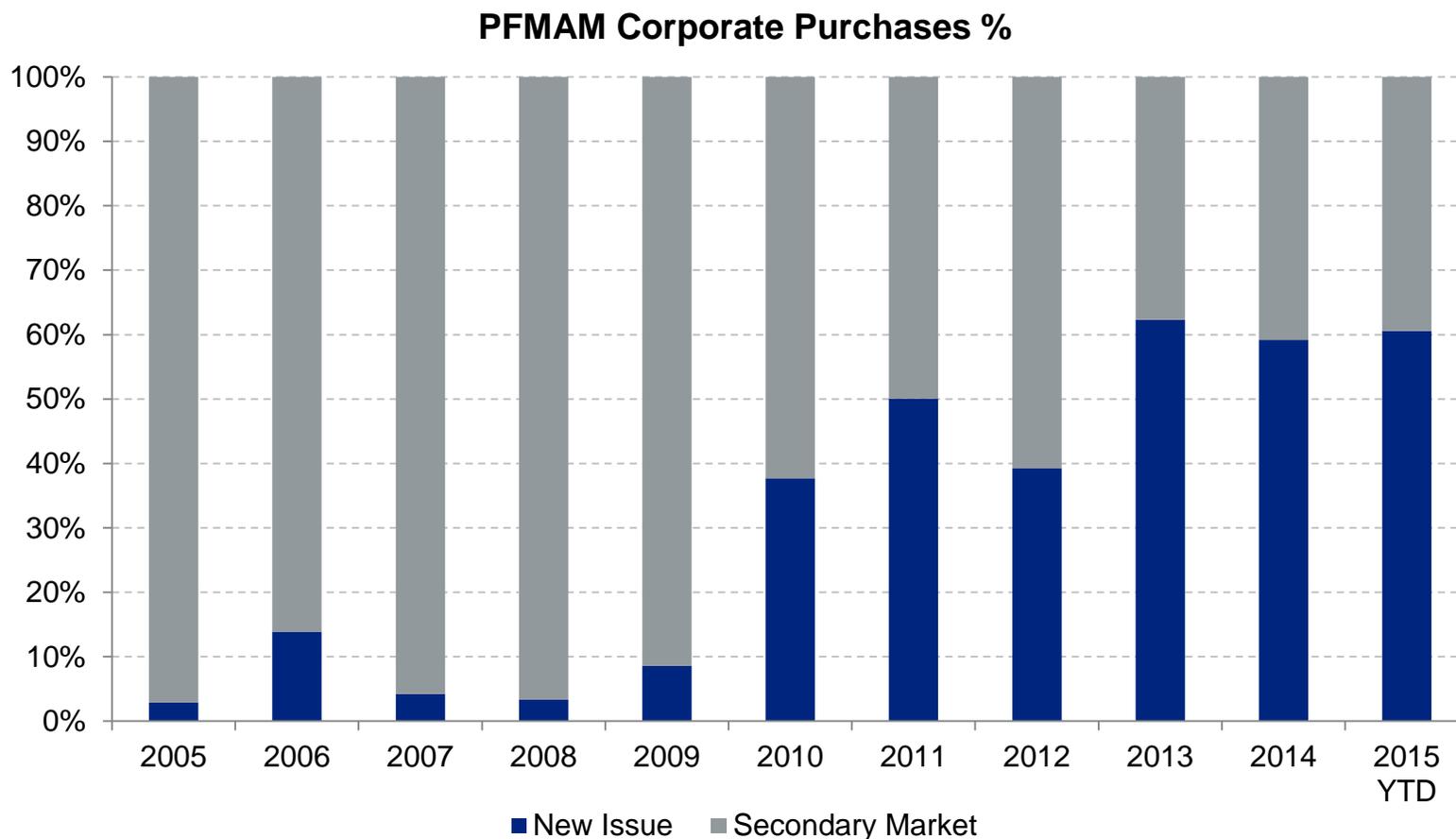
# Increased the Portfolio's Sector Diversification

- We purchased federal mortgage-backed obligations and a supranational bond that increased the sector diversification of the City's portfolio.
- We sold lower-yielding Treasury notes in order to gain more exposure to these sectors while maintaining the portfolio's high credit quality.

Settle Date	Issuer	Maturity Date	Par Value	S&P Rating	Yield to Maturity (At Market)
4/30/2015	FNMA Series 2015-M7	4/1/2018	385,000	AA+	0.83%
4/30/2015	International Bank of Reconstruction and Development	6/15/2018	1,010,000	AAA	1.06%
6/11/2015	Freddie Mac Series 4459	1/1/2020	1,225,814	AA+	2.36%
6/30/2015	FNMA Series 2015-M10	3/1/2019	2,355,000	AA+	0.43%

# Monitored Marketplace for Best Opportunities

- New-issue corporates have offered greater value in recent years as reduced inventories have driven yields lower in the secondary market.
- Additionally, new issues typically offer higher yields than comparable notes in the secondary market to entice investors and create demand for the issue.



As of June 2015

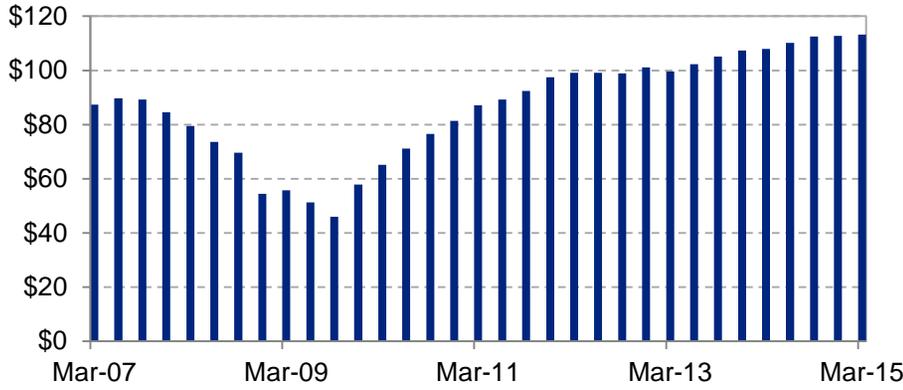
# Acted as Lead Investor for a New-Issue Security

- We acted as the lead investor for a \$500 million new issue from Bank of New York Mellon.
- Our status as a lead investor for the issue enabled us to dictate terms such as settlement and maturity dates, as well as the structure of the coupon.
- By leveraging our market access and purchasing power, we were able to obtain a generous allocation of this attractive security for the City.

Settle Date	Issuer	Maturity Date	Par Value	S&P Rating	Yield to Maturity (At Market)
5/29/2015	Bank of New York Mellon Note	5/22/2018	1,050,000	A+	1.60%

# Corporate Fundamentals at Post-Recession Highs

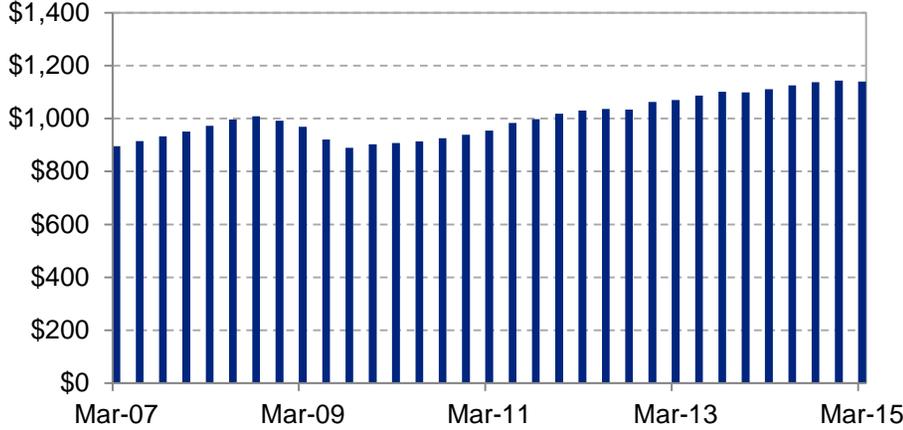
**S&P 500 Earnings per Share**



**Corporate Profits (\$ bn)**



**S&P 500 Trailing 12-Month Sales per Share**

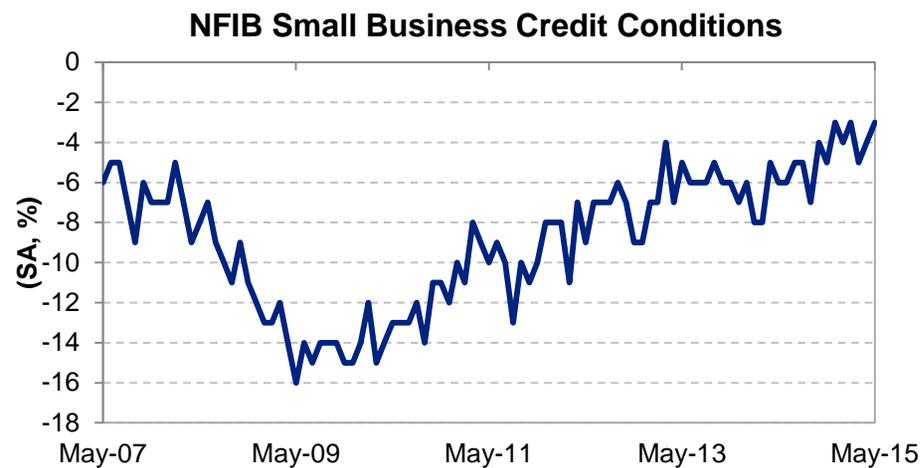
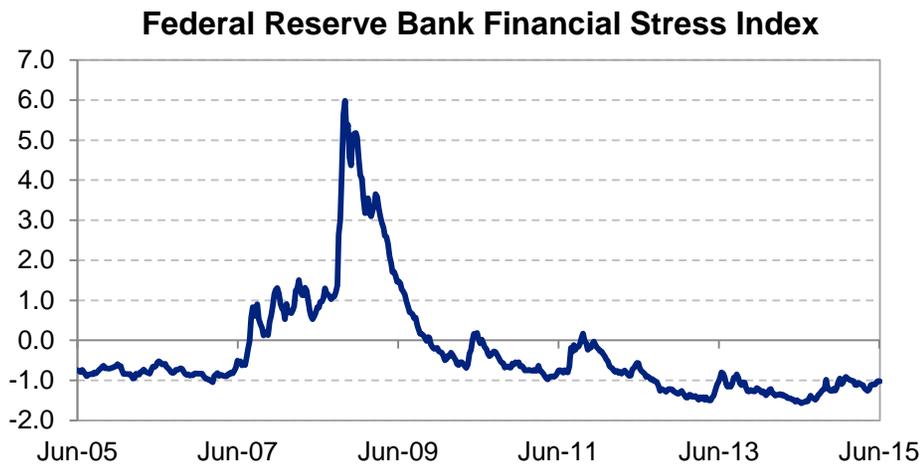
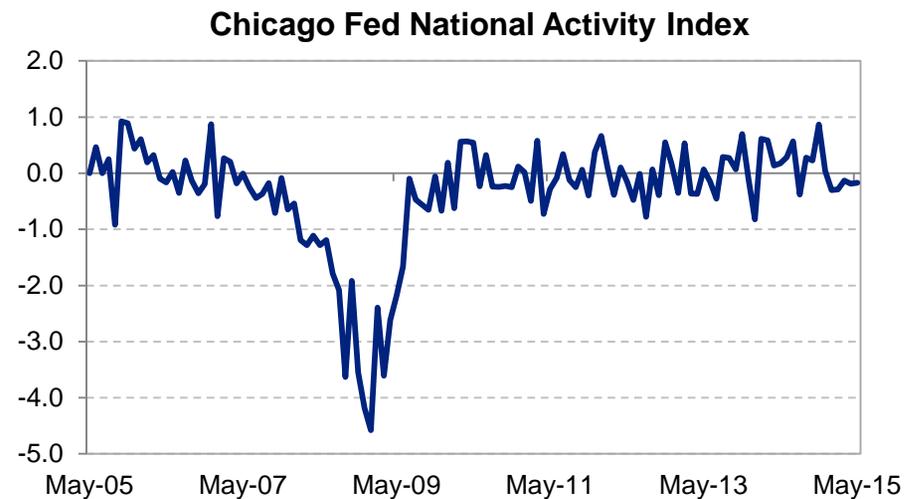
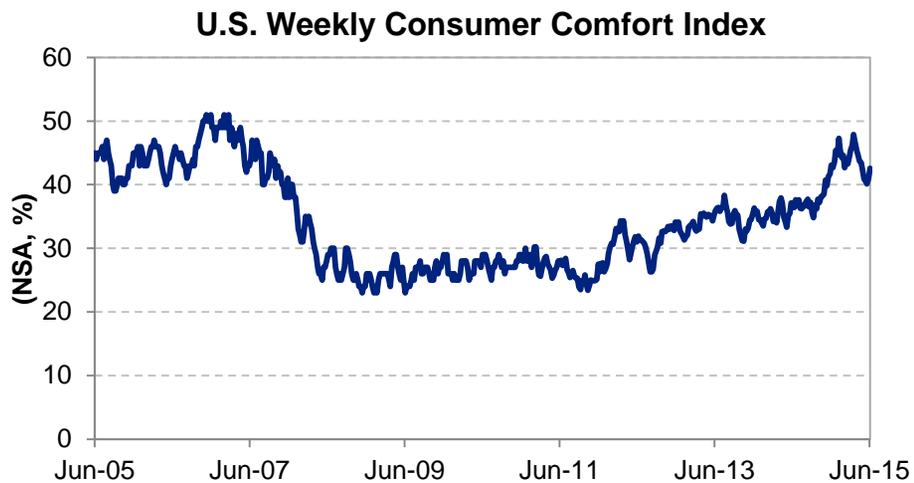


**M&A Transaction Value (\$ Billions)**



Source: Bloomberg

# U.S. Business Conditions Continue to Improve



Source: Bloomberg

# We See Tremendous Value in Corporate Sector

Sector	PFMAM Investment Preference	Sector Considerations
MMF/LGIP		<p><b>CP/CDs</b> Supply remains constrained for 0-2 month maturities, but Fed expectations and looming money market reform have led to wider spreads in 6-12 month maturities.</p> <p><b>Treasuries</b> New issuance shrinking as federal deficit improves; 1-5 year maturities offer value near the upper end of recent trading ranges.</p> <p><b>Federal Agencies</b> Housing GSEs continue to reduce issuance as they shrink their balance sheets; result is diminished supply and shrinking spreads. Front end spreads remain elevated relative to spreads further out the curve.</p> <p><b>Corporates</b> Positive macro environment is particularly supportive of industrial issuers which appear attractive; some new issues still contain price concessions; bank sector may come under ratings pressure in 2015, but still provide an opportunity to enhance returns.</p> <p><b>Municipals</b> Supply has increased of late as issuers look to lock in low rates; taxables offer occasional value compared to other spread products.</p> <p><b>ABS</b> Economic outlook supports incremental value in AAA senior fixed-rate auto loan and credit card tranches.</p> <p><b>MBS</b> Although valuations have moderately cheapened recently, the sector remains vulnerable to a spike in volatility. Extension risk concerns are likely to continue to pressure lower coupons. The anticipated prepayment slowdown enhances the attractiveness of higher coupons.</p>
Commercial Paper/CDs		
Treasury: T-Bill		
T-Note		
Agency: <= 3 years		
> 3 Years		
Corporates: Financials		
Industrials		
Municipal Bonds		
Asset-Backed		
Mortgage-Backed		

Source: PFMAM, as of June 30, 2015. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. Analysis is subject to changes in the market environment, and may vary based on the client's particular circumstances.

# Credit Review Philosophy

- Utilize credit in seeking to generate above benchmark returns with minimum volatility.
- Integrate into broader investment process.
- Research conducted “on the desk” by portfolio managers and traders.
- Emphasize emerging industry and macro trends.
- Build in a “margin of safety.”

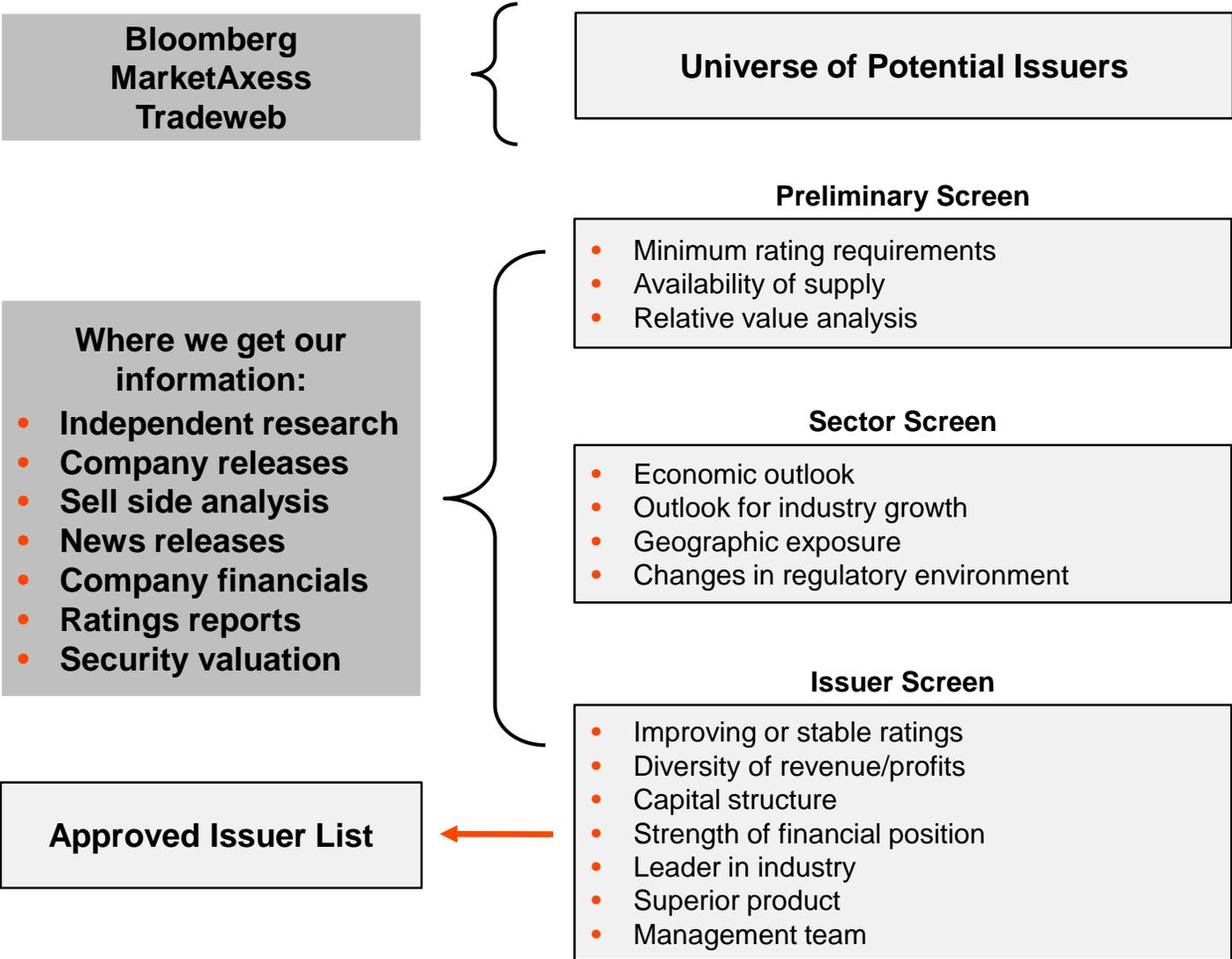
Issuer Analysis	Macro/Industry Analysis
<ul style="list-style-type: none"><li>✓ Balance sheet: ratios and analysis</li><li>✓ Earnings: actual and projections</li><li>✓ Asset quality and impairments</li><li>✓ Debt and liquidity levels</li><li>✓ Corporate governance</li><li>✓ Prices of bonds, equity, and credit default swaps</li><li>✓ Supply and trading volume</li><li>✓ Analysts' recommendations</li></ul>	<ul style="list-style-type: none"><li>✓ Macro-economic conditions</li><li>✓ Industry trends</li><li>✓ Competitive environment</li><li>✓ Business cycle</li><li>✓ Regulatory environment</li><li>✓ Rating agency actions</li><li>✓ Sovereign credit developments</li><li>✓ Geopolitical risks</li></ul>

# Credit Committee

- Develops and maintains approved credit list.
- Monitors credit on an ongoing basis.
- Focuses on emerging industry trends and market event risk.
- Expands the credit analysis beyond published credit ratings.

Credit Committee	Role at PFM
Marty Margolis	Chief Investment Officer and Managing Director
Robert Cheddar, CFA	Chief Credit Analyst and Senior Portfolio Manager
Ken Schiebel, CFA	Managing Director and Senior Portfolio Manager
Richard Michael, Esq.	Compliance Counsel
Michael Varano	Senior Portfolio Manager and Managing Director
Gregg Manjerovic, CFA	Senior Portfolio Manager

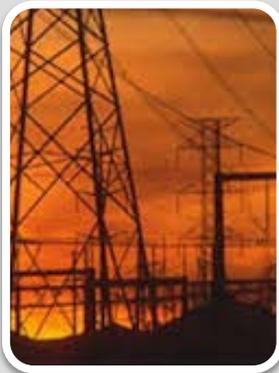
# Credit Research Process



# Ideal Credit Characteristics

- Leader in its industry
- Diverse revenue and profit streams
- Healthy financial condition, debt levels, and profitability
- Improving or stable credit ratings
- A reputation for transparency
- Ideal business conditions

# Successful Outcomes from Our Credit Process



**2000-2001**  
**California Energy Crisis**

After 1998 de-regulation, avoided California utility sector

Owned no PG&E, So. California Edison, or Enron



**2007**  
**Residential Mortgage Deterioration**

July 2007: Liquidated entire holdings of asset-backed commercial paper (over \$2 billion)

2007 Q3/Q4: Ceased purchase of issuers with exposure to MBS (Bear Stearns, Lehman Brothers, Merrill Lynch, and RBS)



**2008-2009**  
**Credit Crisis**

Owned no Lehman Brothers, Washington Mutual, IndyMac, AIG, CIT Group, MBIA

Portfolio management team focused on safety and liquidity



**2011**  
**Japanese Tsunami**

March 2011: Credit Committee placed all Japanese issuers on hold

As conditions improved, issuers are re-approved



**2011-2012**  
**European Debt Crisis**

Monitored developments in Europe on an ongoing basis

Some issuers are removed from credit list, others are placed on hold or restricted by maturity

No exposure to Greece, Portugal, Italy, or Ireland

# Total Return

## Total Return Period Ended June 30, 2015

	Duration	Periodic	Annualized		
		Past Quarter	Past Year	Past Two Years	Since Inception <sup>5</sup>
<b>City of Hayward<sup>1,2,3,4</sup></b>	<b>1.74</b>	<b>0.15%</b>	<b>0.90%</b>	<b>0.81%</b>	<b>0.62%</b>
<i>Merrill Lynch 1-3 Year U.S. Treasury Index</i>	<i>1.80</i>	<i>0.15%</i>	<i>0.88%</i>	<i>0.82%</i>	<i>0.62%</i>
<i>LAIF<sup>6</sup></i>	<i>0.00</i>	<i>0.07%</i>	<i>0.26%</i>	<i>0.25%</i>	<i>0.26%</i>

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).

2. Merrill Lynch Indices provided by Bloomberg Financial Markets.

3. Quarterly returns are presented on an unannualized basis.

4. Excludes LAIF and cash balance in performance, duration, and yield computations.

5. Inception date is September 30, 2012.

6. California State Treasurer LAIF website.

# Fixed-Income Index Returns

	Effective Duration	Yield	1 Year	3 Years	5 Years
<b>1-3 Year Indices</b>					
U.S. Treasury	1.87	0.63%	0.88%	0.66%	0.82%
Agency	1.74	0.76%	0.99%	0.73%	0.95%
Corp A-AAA	2.05	1.45%	1.02%	1.76%	2.21%
<b>1-5 Year Indices</b>					
U.S. Treasury	2.70	0.93%	1.38%	0.83%	1.37%
Agency	2.18	0.96%	1.31%	0.94%	1.33%
Corp A-AAA	2.81	1.80%	1.45%	2.36%	3.02%

- Source: Bank of America Merrill Lynch Indices. Returns for periods greater than one year are annualized.
- Returns for periods ending June 30, 2015.

# Current Strategy

- We expect U.S. economic conditions to rebound from the first quarter 2015 contraction. Rising consumer confidence, growth in personal spending, and a stronger housing sector should contribute to improved economic conditions.
- Improving employment statistics in the U.S. suggest that an increase in the Federal Funds rate may be appropriate soon. However, stubbornly low inflation remains a concern for the Federal Reserve policy makers. Market participants still expect the FOMC to initiate at least one rate hike in 2015, but the pace of subsequent increases is likely to be gradual.
- It is likely that developments in Greece will continue to cause market volatility as investors weigh the impact of possible outcomes on global economic conditions.
- Recovering U.S. economic conditions, heightened geopolitical uncertainty, and expectations that the FOMC will tighten monetary policy slowly should keep rates in their current ranges in the coming months, with a modest bias towards slightly higher levels. Based on this expectation, we will maintain portfolio durations near the durations of their respective benchmarks.
- Our strategy will be to focus on identifying relative value from among the full range of investment options. We will pay careful attention to sector allocation, yield curve placement, credit market dynamics, and individual security selection. These factors will likely be key drivers of performance in an uncertain rate environment.
- Corporate securities remain our preferred vehicle for generating incremental income in a market environment constrained by low yields and narrow trading ranges. We will add to our corporate and negotiable bank CD allocation, where feasible.

# Disclaimer

*This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guarantee of future results. The information contained in this presentation is not an offer to purchase or sell any securities.*



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2015**

### CITY OF HAYWARD

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 06/02/2014 0.375% 05/31/2016	912828WM8	1,120,000.00	AA+	Aaa	06/02/14	06/03/14	1,119,825.00	0.38	355.74	1,119,919.44	1,120,787.36
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	200,000.00	AA+	Aaa	05/22/13	05/24/13	217,273.44	0.44	17.66	205,579.06	205,750.00
US TREASURY NOTES DTD 06/30/2009 3.250% 06/30/2016	912828KZ2	2,300,000.00	AA+	Aaa	05/24/13	05/31/13	2,491,367.19	0.53	203.13	2,362,246.76	2,366,125.00
US TREASURY NOTES DTD 08/01/2011 1.500% 07/31/2016	912828QX1	2,775,000.00	AA+	Aaa	07/22/13	07/22/13	2,848,385.74	0.62	17,362.91	2,801,426.46	2,808,821.70
US TREASURY NOTES DTD 11/30/2011 0.875% 11/30/2016	912828RU6	3,000,000.00	AA+	Aaa	10/31/13	11/01/13	3,023,203.13	0.62	2,223.36	3,010,720.26	3,017,577.00
US TREASURY NOTES DTD 11/30/2011 0.875% 11/30/2016	912828RU6	3,775,000.00	AA+	Aaa	12/03/13	12/04/13	3,808,768.55	0.57	2,797.73	3,791,060.51	3,797,117.73
US TREASURY NOTES DTD 01/03/2012 0.875% 12/31/2016	912828RX0	1,825,000.00	AA+	Aaa	12/05/14	12/09/14	1,831,843.75	0.69	43.39	1,829,985.50	1,835,692.68
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	2,705,000.00	AA+	Aaa	10/02/14	10/06/14	2,718,208.01	0.80	6,799.45	2,714,326.27	2,725,709.48
US TREASURY NOTES DTD 03/31/2012 1.000% 03/31/2017	912828SM3	3,450,000.00	AA+	Aaa	03/19/14	03/21/14	3,457,951.17	0.92	8,672.13	3,454,619.96	3,476,413.20
US TREASURY NOTES DTD 04/30/2012 0.875% 04/30/2017	912828SS0	7,500,000.00	AA+	Aaa	05/04/15	05/04/15	7,538,671.88	0.61	11,056.39	7,535,622.08	7,538,085.00
US TREASURY NOTES DTD 05/31/2012 0.625% 05/31/2017	912828SY7	4,450,000.00	AA+	Aaa	06/02/14	06/03/14	4,425,316.41	0.81	2,355.70	4,434,130.54	4,449,305.80
US TREASURY NOTES DTD 07/02/2012 0.750% 06/30/2017	912828TB6	2,800,000.00	AA+	Aaa	10/30/14	11/03/14	2,797,156.25	0.79	57.07	2,797,860.66	2,805,468.40
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	820,000.00	AA+	Aaa	07/01/14	07/07/14	808,628.91	0.96	1,710.22	812,240.54	817,116.88
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	1,115,000.00	AA+	Aaa	02/06/15	02/10/15	1,105,679.30	0.84	2,325.48	1,107,135.58	1,111,079.66



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2015**

### CITY OF HAYWARD

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>U.S. Treasury Bond / Note</b>											
US TREASURY NOTES DTD 07/31/2012 0.500% 07/31/2017	912828TG5	2,750,000.00	AA+	Aaa	02/02/15	02/04/15	2,741,298.83	0.63	5,735.50	2,742,709.70	2,740,331.00
US TREASURY NOTES DTD 08/31/2012 0.625% 08/31/2017	912828TM2	7,500,000.00	AA+	Aaa	05/04/15	05/04/15	7,478,027.34	0.75	15,667.46	7,479,510.90	7,487,107.50
US TREASURY NOTES DTD 09/30/2010 1.875% 09/30/2017	912828PA2	1,190,000.00	AA+	Aaa	09/02/14	09/04/14	1,219,842.97	1.04	5,608.61	1,211,943.92	1,220,121.28
US TREASURY NOTES DTD 12/31/2012 0.750% 12/31/2017	912828UE8	1,700,000.00	AA+	Aaa	12/02/14	12/03/14	1,686,585.94	1.01	34.65	1,689,080.00	1,696,414.70
US TREASURY NOTES DTD 01/31/2013 0.875% 01/31/2018	912828UJ7	1,850,000.00	AA+	Aaa	12/29/14	12/31/14	1,831,210.94	1.21	6,752.24	1,834,221.94	1,850,288.60
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	825,000.00	AA+	Aaa	03/26/15	03/27/15	819,038.09	0.99	1,555.33	819,551.27	820,810.65
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	3,500,000.00	AA+	Aaa	02/26/15	02/27/15	3,469,101.56	1.04	6,598.36	3,472,455.84	3,482,227.00
US TREASURY NOTES DTD 04/01/2013 0.750% 03/31/2018	912828UU2	4,600,000.00	AA+	Aaa	03/26/15	03/27/15	4,566,578.13	1.00	8,672.13	4,569,454.94	4,576,641.20
US TREASURY NOTES DTD 04/30/2013 0.625% 04/30/2018	912828UZ1	1,100,000.00	AA+	Aaa	04/28/15	04/30/15	1,091,148.44	0.90	1,158.29	1,091,639.99	1,090,117.60
US TREASURY NOTES DTD 05/31/2013 1.000% 05/31/2018	912828VE7	5,000,000.00	AA+	Aaa	05/04/15	05/04/15	4,999,804.69	1.00	4,234.97	4,999,822.15	5,001,560.00
<b>Security Type Sub-Total</b>		<b>67,850,000.00</b>					<b>68,094,915.66</b>	<b>0.79</b>	<b>111,997.90</b>	<b>67,887,264.27</b>	<b>68,040,669.42</b>
<b>Supra-National Agency Bond / Note</b>											
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 04/30/2015 1.000% 06/15/2018	459058EJ8	1,010,000.00	AAA	Aaa	04/22/15	04/30/15	1,008,272.90	1.06	448.89	1,008,364.71	1,008,654.68
<b>Security Type Sub-Total</b>		<b>1,010,000.00</b>					<b>1,008,272.90</b>	<b>1.06</b>	<b>448.89</b>	<b>1,008,364.71</b>	<b>1,008,654.68</b>
<b>Municipal Bond / Note</b>											



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2015**

### CITY OF HAYWARD

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>Municipal Bond / Note</b>											
ORANGE CNTY, CA TXBL REV PO BONDS DTD 01/13/2015 0.780% 05/02/2016	68428LDJ0	1,035,000.00	AA-	NR	01/09/15	01/13/15	1,035,000.00	0.78	3,767.40	1,035,000.00	1,037,442.60
CA EARTHQUAKE AUTH TXBL REV BONDS DTD 11/06/2014 1.194% 07/01/2016	13017HAC0	250,000.00	NR	A3	10/29/14	11/06/14	250,000.00	1.19	1,492.50	250,000.00	250,175.00
CA EARTHQUAKE AUTH TXBL REV BONDS DTD 11/06/2014 1.824% 07/01/2017	13017HAD8	190,000.00	NR	A3	10/29/14	11/06/14	190,000.00	1.82	1,732.80	190,000.00	190,870.20
CT ST TXBL GO BONDS DTD 03/25/2015 1.422% 03/15/2018	20772JZJ4	430,000.00	AA	Aa3	03/13/15	03/25/15	430,000.00	1.42	1,630.56	430,000.00	430,167.70
<b>Security Type Sub-Total</b>		<b>1,905,000.00</b>					<b>1,905,000.00</b>	<b>1.08</b>	<b>8,623.26</b>	<b>1,905,000.00</b>	<b>1,908,655.50</b>

<b>Federal Agency Collateralized Mortgage Obligation</b>											
FNMA SERIES 2015-M1 ASQ2 DTD 01/15/2015 1.626% 02/01/2018	3136AMKW8	445,000.00	AA+	Aaa	01/15/15	01/30/15	449,446.66	1.26	602.98	446,825.67	449,823.80
FNMA SERIES 2015-M7 ASQ2 DTD 04/01/2015 1.550% 04/01/2018	3136ANJY4	385,000.00	AA+	Aaa	04/15/15	04/30/15	388,848.61	0.83	497.29	386,764.10	387,872.49
FNMA SERIES 2015-M3 FA DTD 02/01/2015 0.420% 06/01/2018	3136AMMC0	298,544.89	AA+	Aaa	02/12/15	02/27/15	298,466.89	0.39	104.40	298,466.88	298,679.83
FNMA SERIES M4 FA DTD 03/01/2015 0.385% 09/01/2018	3136AMTM1	257,773.27	AA+	Aaa	03/12/15	03/31/15	257,707.21	0.38	82.59	257,708.57	258,282.89
FNMA SERIES 2015-M10 FA DTD 06/01/2015 0.434% 03/01/2019	3136ANA98	2,355,000.00	AA+	Aaa	06/12/15	06/30/15	2,354,318.46	0.43	851.73	2,354,318.77	2,354,319.41
FREDDIE MAC SERIES 4459 NB DTD 04/01/2015 4.500% 01/01/2020	3137BHU39	1,225,813.82	AA+	Aaa	06/08/15	06/11/15	1,285,189.17	0.77	4,596.80	1,284,399.10	1,283,732.30
<b>Security Type Sub-Total</b>		<b>4,967,131.98</b>					<b>5,033,977.00</b>	<b>0.62</b>	<b>6,735.79</b>	<b>5,028,483.09</b>	<b>5,032,710.72</b>

<b>Federal Agency Bond / Note</b>											
FARMER MAC AGENCY NOTES DTD 08/11/2014 0.350% 02/11/2016	31315PT74	2,100,000.00	NR	NR	08/06/14	08/11/14	2,100,000.00	0.35	2,858.33	2,100,000.00	2,100,602.70



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2015**

### CITY OF HAYWARD

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>Federal Agency Bond / Note</b>											
FANNIE MAE GLOBAL NOTES DTD 02/15/2013 0.500% 03/30/2016	3135G0VA8	2,040,000.00	AA+	Aaa	07/22/13	07/22/13	2,035,042.80	0.59	2,578.33	2,038,615.37	2,042,829.48
FHLMC REFERENCE NOTE DTD 11/21/2014 0.400% 05/27/2016	3134G5RF4	2,325,000.00	AA+	Aaa	11/19/14	11/21/14	2,324,302.50	0.42	878.33	2,324,583.15	2,324,741.93
FNMA NOTES DTD 08/19/2011 1.250% 09/28/2016	3135G0CM3	2,175,000.00	AA+	Aaa	10/01/13	10/03/13	2,206,254.75	0.76	7,023.44	2,188,080.28	2,195,977.88
FHLB NOTES DTD 08/07/2014 0.500% 09/28/2016	3130A2T97	2,915,000.00	AA+	Aaa	08/06/14	08/07/14	2,908,441.25	0.61	3,765.21	2,911,186.39	2,915,690.86
FNMA NOTES DTD 08/19/2011 1.250% 09/28/2016	3135G0CM3	7,500,000.00	AA+	Aaa	05/04/15	05/04/15	7,577,850.00	0.50	24,218.75	7,569,070.43	7,572,337.50
FHLB NOTES DTD 11/17/2014 0.625% 11/23/2016	3130A3J70	7,500,000.00	AA+	Aaa	05/04/15	05/04/15	7,507,500.00	0.56	4,947.92	7,506,740.63	7,504,545.00
FHLB NOTES DTD 11/09/2010 1.625% 12/09/2016	313371PV2	3,500,000.00	AA+	Aaa	05/05/15	05/05/15	3,557,505.00	0.59	3,475.69	3,551,921.38	3,553,515.00
FHLB (CALLABLE) NOTES DTD 02/27/2015 0.875% 02/27/2017	3130A4B84	530,000.00	AA+	Aaa	03/05/15	03/06/15	530,349.80	0.84	1,597.36	530,114.55	530,614.80
FHLB (CALLABLE) NOTES DTD 03/17/2015 0.850% 03/17/2017	3130A4M58	1,650,000.00	AA+	Aaa	03/05/15	03/17/15	1,650,000.00	0.85	4,051.67	1,650,000.00	1,652,379.30
FHLB GLOBAL NOTES (CALLABLE) DTD 03/24/2015 0.840% 03/24/2017	3130A4OV7	1,650,000.00	AA+	Aaa	03/17/15	03/24/15	1,650,000.00	0.84	3,734.50	1,650,000.00	1,653,070.65
FHLB GLOBAL NOTES DTD 05/15/2015 0.625% 05/30/2017	3130A5EP0	2,410,000.00	AA+	Aaa	05/14/15	05/15/15	2,407,999.70	0.67	1,297.05	2,408,123.31	2,405,081.19
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	1,400,000.00	AA+	Aaa	03/19/15	03/20/15	1,404,760.00	0.85	5,950.00	1,404,199.94	1,406,519.80
FREDDIE MAC GLOBAL NOTES DTD 06/25/2012 1.000% 07/28/2017	3137EADJ5	2,700,000.00	AA+	Aaa	08/12/14	08/14/14	2,699,819.10	1.00	11,475.00	2,699,874.37	2,712,573.90
<b>Security Type Sub-Total</b>		<b>40,395,000.00</b>					<b>40,559,824.90</b>	<b>0.62</b>	<b>77,851.58</b>	<b>40,532,509.80</b>	<b>40,570,479.99</b>



## Managed Account Detail of Securities Held

For the Month Ending **June 30, 2015**

### CITY OF HAYWARD

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
<b>Corporate Note</b>											
WALT DISNEY CORP NOTES DTD 11/30/2012 1.100% 12/01/2017	25468PCV6	1,500,000.00	A	A2	11/04/14	11/07/14	1,490,565.00	1.31	1,375.00	1,492,536.54	1,499,119.50
WELLS FARGO & COMPANY GLOBAL NOTES DTD 12/26/2012 1.500% 01/16/2018	94974BFG0	1,250,000.00	A+	A2	05/05/15	05/08/15	1,252,550.00	1.42	8,593.75	1,252,418.51	1,247,655.00
EXXON MOBIL CORP NOTES DTD 03/06/2015 1.305% 03/06/2018	30231GAL6	1,400,000.00	AAA	Aaa	03/04/15	03/06/15	1,400,000.00	1.31	5,836.25	1,400,000.00	1,398,863.20
BANK OF NEW YORK MELLON CORP DTD 05/29/2015 1.600% 05/22/2018	06406HDB2	1,050,000.00	A+	A1	05/22/15	05/29/15	1,049,905.50	1.60	1,493.33	1,049,908.07	1,049,380.50
<b>Security Type Sub-Total</b>		<b>5,200,000.00</b>					<b>5,193,020.50</b>	<b>1.39</b>	<b>17,298.33</b>	<b>5,194,863.12</b>	<b>5,195,018.20</b>
<b>Asset-Backed Security / Collateralized Mortgage Obligation</b>											
FORD ABS 2015-A A2A DTD 03/24/2015 0.810% 01/15/2018	34530OAB6	245,000.00	NR	Aaa	03/17/15	03/24/15	244,998.38	0.81	88.20	244,998.56	245,170.03
<b>Security Type Sub-Total</b>		<b>245,000.00</b>					<b>244,998.38</b>	<b>0.81</b>	<b>88.20</b>	<b>244,998.56</b>	<b>245,170.03</b>
<b>Managed Account Sub-Total</b>		<b>121,572,131.98</b>					<b>122,040,009.34</b>	<b>0.76</b>	<b>223,043.95</b>	<b>121,801,483.55</b>	<b>122,001,358.54</b>
<b>Securities Sub-Total</b>		<b>\$121,572,131.98</b>					<b>\$122,040,009.34</b>	<b>0.76%</b>	<b>\$223,043.95</b>	<b>\$121,801,483.55</b>	<b>\$122,001,358.54</b>
<b>Accrued Interest</b>											<b>\$223,043.95</b>
<b>Total Investments</b>											<b>\$122,224,402.49</b>



**JOHN CHIANG  
TREASURER  
STATE OF CALIFORNIA**



**PMIA Performance Report**

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
07/23/15	0.32	0.32	234
07/24/15	0.32	0.32	236
07/25/15	0.32	0.32	236
07/26/15	0.32	0.32	236
07/27/15	0.33	0.32	240
07/28/15	0.33	0.32	239
07/29/15	0.33	0.32	239
07/30/15	0.33	0.32	237
07/31/15	0.33	0.32	240
08/01/15	0.33	0.32	240
08/02/15	0.33	0.32	240
08/03/15	0.33	0.32	240
08/04/15	0.33	0.32	239
08/05/15	0.33	0.32	238

\*Daily yield does not reflect capital gains or losses

**LAIF Performance Report**

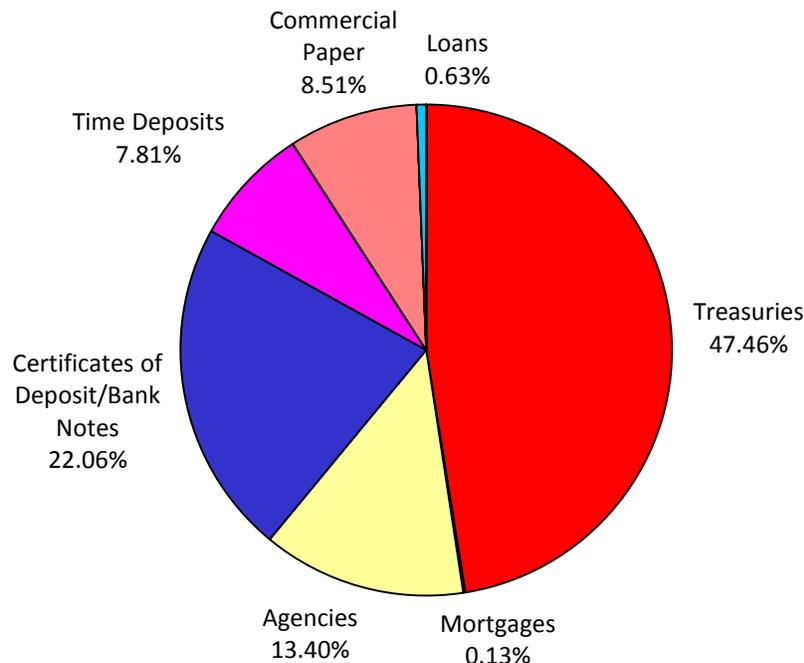
**Quarter Ending 06/30/15**

Apportionment Rate: 0.28%  
 Earnings Ratio: 0.00000776875573384  
 Fair Value Factor: 1.000375979  
 Daily: 0.31%  
 Quarter to Date: 0.29%  
 Average Life: 239

**PMIA Average Monthly Effective Yields**

**JUN 2015 0.299%**  
 MAY 2015 0.290%  
 APR 2015 0.283%

**Pooled Money Investment Account  
Portfolio Composition  
\$69.6 billion  
6/30/15**



April 22, 2015

## Memorandum

**To:** Tracy Vesely, Director of Finance  
 Members of the Investment Committee  
*City of Hayward*

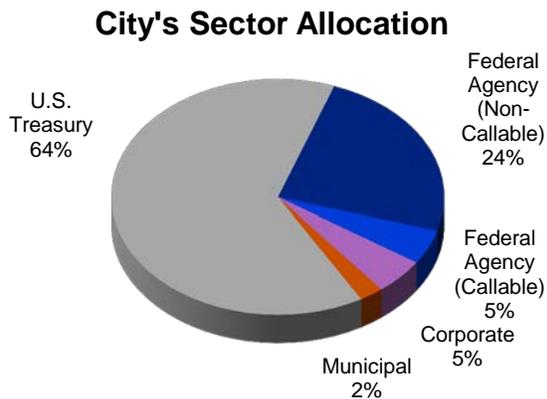
**From:** Monique Spyke, Director  
 Michael Joseph, Senior Analyst  
*PFM Asset Management, LLC*

**Re:** Potential Investment Benchmark Change

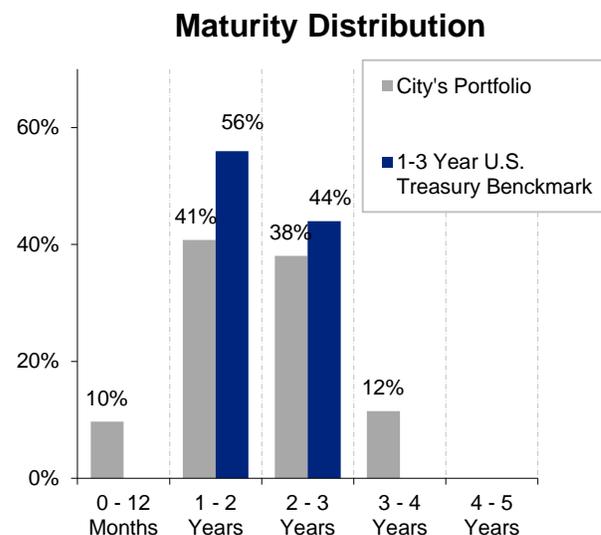
We recommend the City consider an investment benchmark change from the current Merrill Lynch 1-3 Year U.S. Treasury Index benchmark to the Merrill Lynch 1-5 Year U.S. Treasury Index. Our rationale for the change, risk-reward considerations, and relevant benchmark characteristics are detailed below.

### Current Strategy

The City's current strategy uses the Merrill Lynch 1-3 Year U.S. Treasury Index as the performance benchmark. The benchmark has served as a useful tool in the initial construction and ongoing rebalancing of the City's investment portfolio.



*As of March 31, 2015.  
 Excludes cash and LAIF.*





The 1-3 Year benchmark, as one of the shorter performance benchmarks, aided in the City's transition away from an all cash portfolio. As demonstrated in the chart below, portfolio returns have exceeded those offered by LAIF and have been consistently in line with the benchmark.

**Total Return**  
Period Ending March 31, 2015

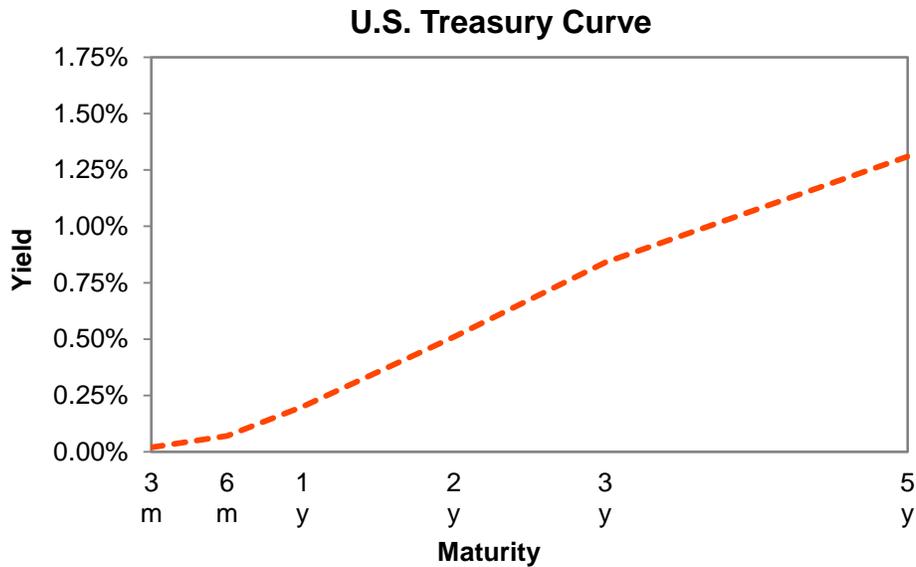
	Periodic		Annualized		
	Duration	Past Quarter	Past Year	Past Two Years	Since Inception <sup>5</sup>
<b>City of Hayward<sup>1,2,3,4</sup></b>	<b>1.88</b>	<b>0.52%</b>	<b>1.00%</b>	<b>0.67%</b>	<b>0.62%</b>
<i>Merrill Lynch 1-3 Year U.S. Treasury Index</i>	<i>1.79</i>	<i>0.52%</i>	<i>1.00%</i>	<i>0.69%</i>	<i>0.63%</i>
<i>LAIF<sup>6</sup></i>	<i>0.00</i>	<i>0.06%</i>	<i>0.24%</i>	<i>0.25%</i>	<i>0.26%</i>

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Quarterly returns are presented on an unannualized basis.
4. Excludes LAIF and cash balance in performance, duration, and yield computations.
5. Inception date is September 30, 2012.
6. California State Treasurer LAIF website.

**Recommendation**

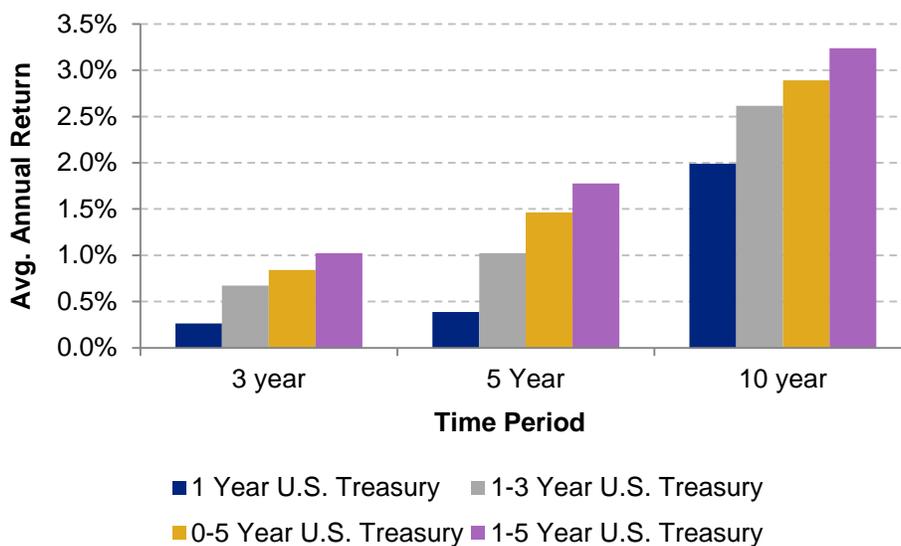
At the end of the last quarter, the City's LAIF and cash deposits comprised 54% of the overall investment portfolio. These assets provide ample stability and liquidity to the portfolio. We believe there is an opportunity to prudently increase the City's earnings by extending the overall duration of the portfolio and allowing for investment in securities out to five years.

Bondholders are rewarded with increasingly higher yields for committing capital to bonds with longer maturities.



Source: Bloomberg.  
As of April 17, 2015.

Accordingly, longer-duration strategies have historically generated higher total returns than shorter-duration strategies when measured over long-term periods. Investors require these higher returns because longer-maturity securities experience greater volatility compared to short-term bonds. The below chart shows the average annual returns of strategies with varying maturities over 3-year, 5-year, and 10-year time periods.



Source: Bloomberg.  
Periods ending March 31, 2015.



As mentioned previously, a longer-duration strategy will also expose the City to more return volatility. As you know, the longer the duration, the larger the market value fluctuation and more significant the return volatility. (If interest rates rise by 1.00%, a portfolio with a duration of 1.8 years should experience a decrease in market value of 1.8%; a portfolio with a duration of 2.6 years should experience a decrease in market value of 2.6%.)

**Risk/Return 10 Years Ended March 31, 2015**

<b>Bank of America Merrill Lynch U.S. Treasury Index</b>	<b>Duration (Years)</b>	<b>Annualized Total Return</b>	<b>Quarters with Negative Returns</b>
1-3 Year	1.79	2.62%	5 out of 40
1-5 Year	2.63	3.24%	10 out of 40

*Source: Bloomberg*

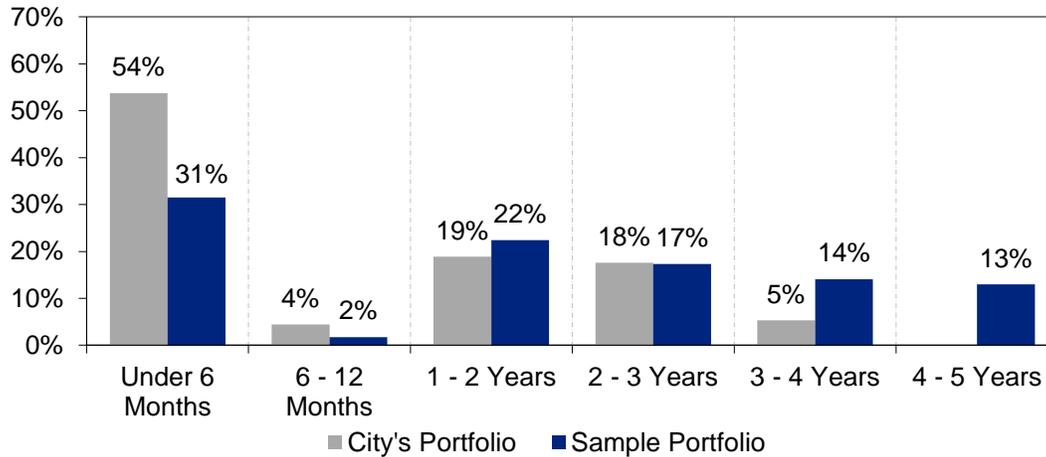
The total return of the City's current benchmark for the past 10 years was 2.62%; the return on the 1-5 Year U.S. Treasury Index was 62 basis points higher, yet the Index had significantly more volatility as measured by the number of quarters with negative returns.

Additionally, the duration (which measures the expected market value decline [or rise] for every 1.00% rise [or fall] in interest rates) of the 1-5 Year U.S. Treasury Index is 47% higher than the duration of the City's portfolio benchmark.

As we have previously discussed and planned for, we believe the City will benefit by moving \$40 million out of cash and investing in the 4-5 year maturity area of the yield curve. While a longer duration will increase the volatility of the portfolio, this will be somewhat mitigated by healthy cash and LAIF balances the City would still maintain after the recommended transition. The chart on the following page demonstrates the current maturity distribution of the City's portfolio compared to a sample portfolio with a 1-5 year benchmark. The sample portfolio reflects the City maintaining a 31% short-term liquidity allocation after the \$40 million has been invested.



### Maturity Distribution



*As of March 31, 2015.  
Includes cash and LAIF.  
Sample portfolio based on the 1-5 Year U.S. Treasury index.*

### **Conclusion**

We believe the 1-5 Year U.S. Treasury Index is a suitable benchmark given the City's objectives of safety, liquidity, yield, and diversification. The current LAIF and cash balances provide ample liquidity for the City. Transitioning to the new benchmark is a prudent way to increase yield for the City while also increasing diversification by spreading the portfolio across a greater number of maturity buckets. We look forward to hearing your thoughts and are available to answer any questions you may have.



### **Important Disclosures**

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