



Ironhouse Sanitary District BOARD OF DIRECTORS *STAFF REPORT*

DATE: January 7, 2020
TO: Members of the Board of Directors
FROM: Michael Welty, CPA
SUBJECT: Investment Portfolio Summary and Discussion

Summary and Discussion:

As of November 30, 2019, Ironhouse Sanitary District (the District) maintains total cash and investments of \$21,373,227. At November 30, 2019, a summary of the portfolio is as follows:

Bank Accounts - \$1,252,312
LAIF - \$6,461,666
CalTrust - \$5,943,002
Wells Fargo Securities - \$7,716,247

For the five months ended November 30, 2019, interest and dividend income is \$164,343 compared to an annual budget of \$275,000 (59.8% of budget).

Details of the portfolio is included in this report.

Portfolio Objective

Consistent with the District's investment policy, the portfolio is designed with three primary objectives, 1) safety, 2) liquidity and 3) return on investment.

LAIF and CalTrust cash investment funds are pooled investment funds of other local government agencies. Cash investment funds provide a high level of liquidity while providing a higher total return than what can be obtained in bank accounts.

Bonds and certificates of deposits held by Wells Fargo Securities are intended to be held to maturity. Bond investments have a current Standard & Poor's credit rating of AA- or higher and certificates of deposits are all FDIC insured.

Staff Report

DATE: *January 7, 2020*

SUBJECT: **Investment Portfolio Summary and Discussion**

Interest Rate Risk and Unrealized Gains and Losses

All fixed income securities held within the Wells Fargo Securities account and CalTrust investment funds are subject to interest rate risk and change in market value. As interest rates rise, fixed income securities tend to lose market value for a period of time because as rates rise and newly issued securities are returning a higher yield than securities already issued (older issued securities), a buyer will only purchase older issued "like" securities at a discount (below par value) because the buyer can buy a newly issued "like" security with a higher yield. When interest rates decline, the opposite is true and the value of current securities held rise in market value for a period of time because a buyer is willing to pay a premium (above par value) for a "like" security with a higher yield than a "like" newly issued security with a lower yield.

However, as fixed income securities get closer to the maturity date, interest rate risk begins to evaporate until ultimately the security matures and the purchaser of the security receives the stated par value of the security.

Generally Accepted Accounting Principles requires the District to record the change in fixed income security market values to reflect the effect of interest rate risk. In the District's financial statements, the change in market value is reflected as unrealized gains (losses). This represents the current year change in market value of the securities held by the District during the current fiscal year as compared to the market value at the end of the prior fiscal year.

In prior fiscal years, the District recognized unrealized losses of \$55,285, and through November 30, 2019, for FY19/20, the District has recognized unrealized gains of \$56,077. In aggregate, the District's investment portfolio has an unrealized gain of \$792 which represents the difference between the aggregate cost paid for the investment portfolio compared to the current market value. If the District had liquidated the portfolio at November 30, 2019, the realized gain would have been \$792. However, since the District intends to hold securities within the portfolio until maturity, a realized loss will not be incurred by the District unless the security is in default or a security is sold before maturity.

Ironhouse Sanitary District
 Schedule of Cash and Investments
 As of November 30, 2019

| Bank Accounts | <u>Balance</u> | <u>Yield</u> |
|----------------------|------------------|--------------|
| Wells Fargo Checking | 1,190,015 | 0.00% |
| BAC Commerce Savings | 62,297 | 0.03% |
| | <u>1,252,312</u> | |

| Cash Investment Funds | <u>Balance</u> | <u>Yield</u> | <u>Unrealized Gain/(Loss)</u> | <u>Standard Poor's Credit Rating</u> |
|------------------------------|-------------------|--------------|-----------------------------------|--|
| LAIF Ultra Short-Term | 6,461,666 | 2.25% | 0 | |
| CalTrust Short-Term | 1,694,217 | 1.89% | 3,907 | AAf/S1+ |
| CalTrust Medium Term | 4,248,786 | 1.73% | (1,687) | A+/S1 |
| | <u>12,404,668</u> | | <u>2,220</u> | |

| Grand Total Summary | <u>Balance</u> | <u>Unrealized Gain/(Loss)</u> | |
|----------------------------|-------------------|-----------------------------------|-----------------------|
| Cash/Investment Type | | | |
| Banks | 1,252,312 | 0 | |
| Cash Investment Funds | 12,404,668 | 2,220 | |
| Wells Fargo Securities | 7,716,247 | (1,428) | See Page 2 for Detail |
| | <u>21,373,227</u> | <u>792</u> | |

Wells Fargo Marketable Securities

| | Trade Date | Issue Date | Maturity Date | Par Value | Purchase Premium | Purchase Accrued Interest | Total Purchase Cost | Coupon Rate | Yield to Maturity | Interest Dates | Adjusted Cost Basis | Current Market Value | Unrealized Gain/(Loss) | Standard Poor's Credit Rating |
|-------------------------------------|------------|------------|---------------|------------------|------------------|---------------------------|---------------------|-------------|-------------------|-----------------|---------------------|----------------------|------------------------|-------------------------------|
| Bonds | | | | | | | | | | | | | | |
| Microsoft | 05/12/16 | 11/03/15 | 11/03/20 | 500,000 | 15,060 | 389 | 515,449 | 2.000% | 1.29% | May/Nov | 502,635 | 501,207 | (1,428) | AAA |
| Cisco Systems | 05/12/16 | 02/29/16 | 02/28/21 | 500,000 | 13,980 | 2,383 | 516,363 | 2.200% | 1.59% | Feb/Aug | 503,881 | 502,514 | (1,367) | AA- |
| Apple, Inc. | 05/12/16 | 05/06/14 | 05/06/21 | 500,000 | 29,000 | 435 | 529,435 | 2.850% | 1.63% | May/Nov | 507,650 | 507,678 | 28 | AA+ |
| Alphabet (Google) | 05/12/16 | 11/19/15 | 05/19/21 | 500,000 | 52,065 | 8,962 | 561,027 | 3.625% | 1.46% | May/Nov | 514,178 | 512,555 | (1,623) | AA |
| | | | | 2,000,000 | 110,105 | 12,169 | 2,122,274 | | | | 2,028,343 | 2,023,953 | (4,391) | |
| Certificates of Deposits | | | | | | | | | | | | | | |
| Washington Trust Westerly | 05/13/19 | 05/23/19 | 12/23/19 | 250,000 | 0 | 0 | 250,000 | 2.40% | 2.40% | At Maturity | 250,000 | 250,139 | 139 | |
| Citizens Bank Batesville | 05/13/19 | 05/24/19 | 02/24/20 | 250,000 | 0 | 0 | 250,000 | 2.40% | 2.40% | Monthly | 250,000 | 250,477 | 477 | |
| Northern Bank | 04/12/16 | 04/21/16 | 04/21/20 | 250,000 | 0 | 0 | 250,000 | 1.30% | 1.30% | Jan/Apr/Jul/Oct | 250,000 | 249,701 | (299) | |
| Beneficial Bank | 05/12/16 | 04/27/16 | 04/27/20 | 250,000 | 0 | 171 | 250,171 | 1.25% | 1.25% | Monthly | 250,000 | 249,955 | (216) | |
| American Express Bank | 05/05/17 | 05/10/17 | 05/11/20 | 100,000 | 0 | 0 | 100,000 | 1.85% | 1.85% | May/Nov | 100,000 | 100,110 | 110 | |
| Bank of China | 05/13/19 | 05/29/19 | 05/28/20 | 250,000 | 0 | 0 | 250,000 | 2.45% | 2.45% | At Maturity | 250,000 | 251,024 | 1,024 | |
| Newbury Savings | 04/12/16 | 07/27/16 | 08/27/20 | 250,000 | 0 | 0 | 250,000 | 1.35% | 1.35% | Monthly | 250,000 | 250,033 | 33 | |
| Synchrony Bank | 04/12/16 | 04/15/16 | 04/15/21 | 250,000 | 0 | 0 | 250,000 | 1.50% | 1.50% | Apr/Oct | 250,000 | 248,735 | (1,265) | |
| JP Morgan Chase | 04/12/16 | 04/19/16 | 04/19/21 | 250,000 | 0 | 0 | 250,000 | 1.55% | 1.55% | Jan/Apr/Jul/Oct | 250,000 | 249,749 | (251) | |
| Goldman Sachs Bank | 04/12/16 | 04/20/16 | 04/20/21 | 250,000 | 0 | 0 | 250,000 | 1.55% | 1.55% | Apr/Oct | 250,000 | 249,746 | (254) | |
| Capital One Bank | 04/12/16 | 04/20/16 | 04/20/21 | 250,000 | 0 | 0 | 250,000 | 1.55% | 1.55% | Apr/Oct | 250,000 | 250,435 | 435 | |
| First Oklahoma Bank | 04/12/16 | 04/22/16 | 04/22/21 | 250,000 | 0 | 0 | 250,000 | 1.45% | 1.45% | Monthly | 250,000 | 249,400 | (600) | |
| Cattle National Bank | 04/12/16 | 04/22/16 | 04/22/21 | 250,000 | 0 | 0 | 250,000 | 1.35% | 1.35% | Apr/Oct | 250,000 | 249,053 | (947) | |
| Fall River Savings | 04/12/16 | 04/22/16 | 04/22/21 | 250,000 | 0 | 0 | 250,000 | 1.35% | 1.35% | Monthly | 250,000 | 249,054 | (946) | |
| Security Bank | 04/12/16 | 04/29/16 | 04/29/21 | 250,000 | 0 | 0 | 250,000 | 1.40% | 1.40% | Monthly | 250,000 | 250,821 | 821 | |
| Total Bank of Miami | 04/12/16 | 04/29/16 | 04/29/21 | 250,000 | 0 | 0 | 250,000 | 1.40% | 1.40% | Monthly | 250,000 | 250,786 | 786 | |
| Magyar Bank | 04/12/16 | 04/29/16 | 04/29/21 | 250,000 | 0 | 0 | 250,000 | 1.35% | 1.35% | Apr/Oct | 250,000 | 250,822 | 822 | |
| Comenity Bank | 05/12/16 | 05/23/16 | 05/24/21 | 250,000 | 0 | 0 | 250,000 | 1.50% | 1.50% | Monthly | 250,000 | 249,875 | (125) | |
| Merrick Bank | 05/12/16 | 05/27/16 | 05/27/21 | 250,000 | 0 | 0 | 250,000 | 1.45% | 1.45% | Monthly | 250,000 | 250,278 | 278 | |
| Morgan Stanley | 06/05/19 | 06/13/19 | 06/14/21 | 196,000 | 0 | 0 | 196,000 | 2.50% | 2.50% | Jun/Dec | 196,000 | 198,553 | 2,553 | |
| BMO Harris Bank | 05/13/19 | 05/23/19 | 05/23/23 | 150,000 | 0 | 0 | 150,000 | 2.70% | 2.70% | Feb/May/Aug/Nov | 150,000 | 150,388 | 388 | |
| | | | | 4,946,000 | 0 | 171 | 4,946,171 | | | | 4,946,000 | 4,949,134 | 2,962 | |
| Mutual Funds | | | | | | | | | | | | | | |
| Wells Fargo MM Fund | Various | | | 743,161 | 0 | 0 | 743,161 | 1.53% | 1.53% | Monthly | 743,161 | 743,161 | 0 | |
| Total Wells Fargo Securities | | | | <u>7,689,161</u> | <u>110,105</u> | <u>12,341</u> | <u>7,811,606</u> | | | | <u>7,717,504</u> | <u>7,716,247</u> | <u>(1,428)</u> | |



| | CalTRUST Short Term | LAIF | | CalTRUST Short Term Net Total Return | CalTRUST Short Term Yield | LAIF Yield |
|-------------------------|---------------------|----------|------------------|--------------------------------------|---------------------------|------------|
| Net Assets | \$1,109,354,893.48 | N/A | One Month | 0.16% | 0.17% | 0.17% |
| NAV per Share | \$10.05 | N/A | Three Month | 0.61% | 0.53% | 0.55% |
| 30 day SEC Yield | 1.89% | 2.25% | Six Month | 1.35% | 1.18% | 1.15% |
| Period Net Total Return | 0.16% | 0.17% | One Year* | 2.96% | 2.49% | 2.37% |
| Effective Duration | 0.46 yrs | N/A | Two Year* | 2.38% | 2.20% | 2.07% |
| Average Maturity | 0.87 yrs | 0.60 yrs | Three Year* | 1.88% | 1.83% | 1.70% |
| Weighted Average Life | 0.76 yrs | 0.51 yrs | Five Year* | 1.35% | 1.33% | 1.19% |
| | | | Ten Year* | 0.92% | 0.90% | 0.78% |
| | | | Since Inception* | 1.76% | 1.75% | 1.68% |
| | | | *Annualized | | | |

Portfolio Sector Breakdown

- ASSET BACKED SECURITIES - 18.31%
- BOND - 29.11%
- CERTIFICATE OF DEPOSIT - 16.10%
- MONEY MARKET FUNDS - 2.83%
- U.S. GOVERNMENT - 31.80%
- AGENCY BONDS - 1.85%

Rated AAF by S&P Global Ratings



| | CalTRUST Medium Term | BofAML 1-3 Corp & Gov't, A Rated and Above | | CalTRUST Medium Term Net Total Return | CalTRUST Medium Term Yield | BofAML 1-3 Corp & Gov't, A Rated and Above Yield |
|-------------------------|----------------------|--|------------------|---------------------------------------|----------------------------|--|
| Net Assets | \$571,096,646.40 | N/A | One Month | -0.03% | 0.17% | 0.01% |
| NAV per Share | \$10.09 | N/A | Three Month | 0.21% | 0.52% | 0.31% |
| 30 Day SEC Yield | 1.73% | N/A | Six Month | 1.57% | 1.09% | 1.64% |
| Period Net Total Return | -0.03% | 0.01% | One Year* | 4.41% | 2.26% | 4.61% |
| Effective Duration | 1.83 yrs | 1.87 yrs | Two Year* | 2.60% | 2.11% | 2.74% |
| Average Maturity | 1.91 yrs | 1.94 yrs | Three Year* | 1.97% | 1.85% | 2.12% |
| Weighted Average Life | 1.76 yrs | N/A | Five Year* | 1.46% | 1.47% | 1.59% |
| | | | Ten Year* | 1.26% | 1.25% | 1.49% |
| | | | Since Inception* | 2.12% | 2.04% | 2.49% |

*Annualized

Portfolio Sector Breakdown

- AGENCY BONDS - 2.02%
- ASSET BACKED SECURITIES - 19.40%
- BOND - 25.70%
- MONEY MARKET FUNDS - 0.91%
- MUNICIPAL BOND - 2.77%
- U.S. GOVERNMENT - 50.20%

Rated AA-f by S&P Global Ratings