HIGHLANDS RANCH
Metro District

FINANCE WORKSHOP MINUTES
Wednesday, August 21, 2019

Directors: **J. Worley**
V. Starkey
A. Dreher
R. Anderson
M. Dickerson
C. Schierholz
N. Smith

Absent*

Staff: T. Nolan, J. Case, C. Ward, S. Stanley, T. Rose, M. Salanty, C. Mitchell

Others: Chris Blackwood (PFMAM); Mark McClure (PFMAM)

- **PFM Asset Management Investment Presentation**
  Chris Blackwood Director of PFM Asset Management LLC (PFMAM) presented an economic update and a summary of the District's portfolio and investment strategy as of June 30, 2019. *(See addendum: PFM HRMD Finance Workshop Presentation June 30, 2019)*

After PFM's presentation the finance workshop took a break for the Study Session and resumed the workshop at the end of the Study Session.

pfm

Highlands Ranch Metro District

Review of Investment Performance

Quarter-ended June 30, 2019

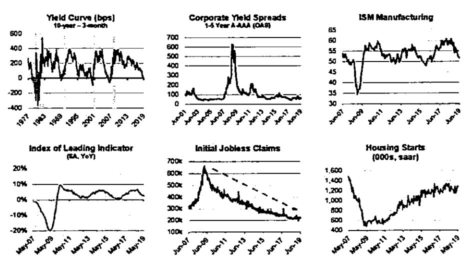
PFM Asset Management LLC
633 17th Street
Suite 2250
Denver, CO 80202
Chris Blackwood, Managing Director
Marc McClure, CFA, Senior Managing Consultant
Andrea Vlad, Relationship Manager

Economic and Market Update

Current Market Themes

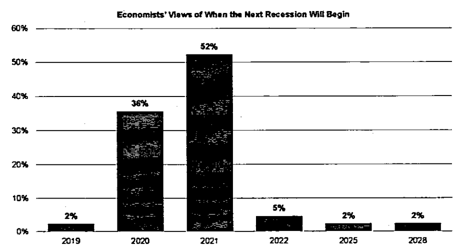
- U.S. economic conditions are characterized by:
  - Above-trend GDP growth, with one-off factors contributing in Q1
  - Healthy labor market with a low unemployment rate of 3.7%
  - Subdued inflation pressures and a soft but recovering housing market
  - Increasing downside growth risks, including a growing budget deficit, protracted trade wars, and challenges over border security funding
- U.S. Treasury yields continued to fall in June, reflecting both Fed dovishness and market pricing of multiple cuts as evolving economic data skews to the downside. The yield curve inversion deepened further, with yields on a majority of benchmark US Treasury maturities now at their 18-month lows.
- U.S. GDP remained unchanged at 3.1% in Q1 of 2019. The third estimate reflected a slight downward revision to consumption. Inflation remains subdued. Business investment was revised slightly upwards, though still relatively weak compared to previous quarters. Inventory and net exports, one-off factors, posted positive contributions, underlining perhaps a subdued trend in private domestic demand and increased tariff measures, respectively.
- The Federal Reserve continued to reaffirm its dovish stance. Fed Chair Powell acknowledged muted inflation pressures and the vibrational consequences of escalating trade tensions. In response, the Fed Chair pledges to "act as appropriate to sustain the expansion". The fed funds target range is currently 2¼ to 2½%.
- U.S equities posted the best first half of a year in decades. For the year, the S&P 500 rose 17% and the Nasdaq soared 21%. While the Dow, at 14% year-to-date, had its best June performance since 1938.
- The rising tide of protectionism, weakening manufacturing momentum, and sluggish global growth prompts synchronize swimming by major Central Banks in the form of dovish monetary policy.

Market Indicators Weakening, But Not Yet Pointing to Imminent Recession



Source: Bloomberg, as of 6/30/2019

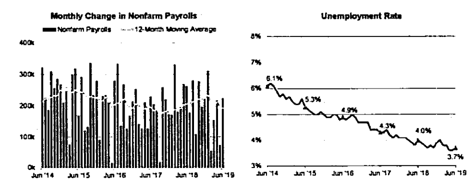
When is the Next Recession?



Source: Wall Street Journal, as of 5/31/19.

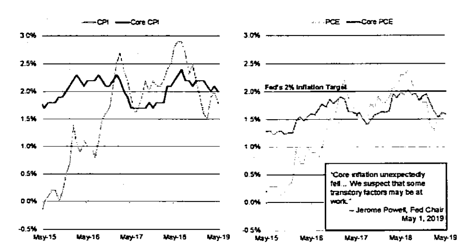
U.S. Job Growth Rebounds Strongly

- The U.S economy added 224,000 jobs in June, a strong comeback after a disappointing May
  - The unemployment rate rose slightly to 3.7%, due to an uptick in the labor participation rate
  - Average hourly earnings YoY remained at 3.1% in June for a second straight month
- For the year, the economy has added an average of 172,000 jobs, less than the 2018 average of 223,000



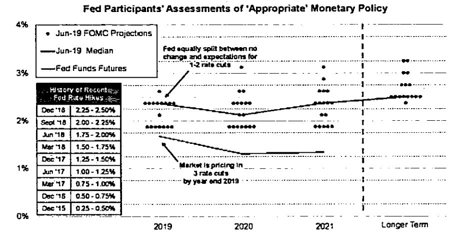
Source: Bloomberg, as of June 2019.

Inflation Running Persistently Below Target



Source: Bloomberg, CPI as of 5/31/19, PCE as of 5/31/19.

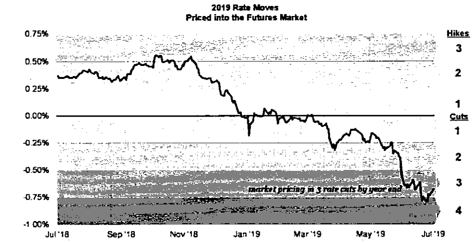
Market Projects Multiple Rate Cuts by Year End



History of Recent Fed Rate Hikes	
Dec '18	2.25 - 2.50%
Sept '18	2.00 - 2.25%
Jun '18	1.75 - 2.00%
Mar '18	1.50 - 1.75%
Dec '17	1.25 - 1.50%
Jun '17	1.00 - 1.25%
Mar '17	0.75 - 1.00%
Dec '16	0.50 - 0.75%
Dec '15	0.25 - 0.50%

Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 6/19/19

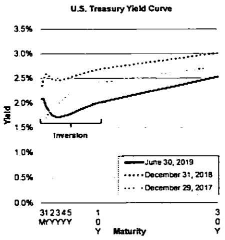
Market Now Expects 3 Rate Cuts by Year End



Source: Bloomberg, as of 7/1/2019.

Yield Curve Remains Partially Inverted

Tenor	06/30/19	Year-End 12/31/18	Year-End 12/29/2017
3 month	2.09%	2.35%	1.38%
1 year	1.93%	2.60%	1.73%
2 year	1.75%	2.49%	1.88%
3 year	1.71%	2.46%	1.97%
5 year	1.77%	2.51%	2.21%
10 year	2.01%	2.68%	2.41%
30 year	2.53%	3.01%	2.74%



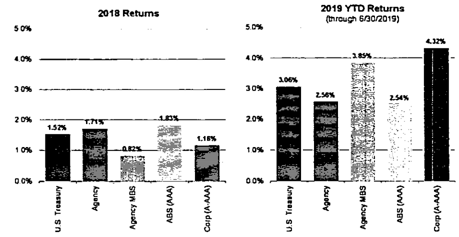
Source: Bloomberg, as of 06/30/19.

Yield Environment as of June 30, 2019

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate
3-Month	2.09%	2.04%	2.18%	2.34%
1-Year	1.93%	1.96%	2.15%	2.29%
2-Year	1.75%	1.89%	2.09%	2.26%
3-Year	1.71%	1.88%	2.09%	2.26%
5-Year	1.77%	1.87%	2.23%	2.42%
10-Year	2.01%	2.26%	2.68%	2.93%

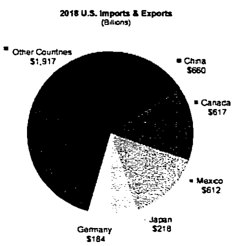
Source: Bloomberg BVAL yield curves for Treasury and Corporate. 3-month corporate yields from commercial paper; A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue.

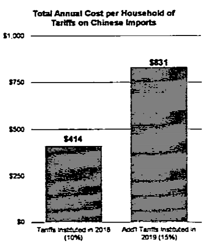
Strong Fixed Income Returns Year-To-Date (1-5 Year Indices)



Source: ICE BofAML Indices. MBS and ABS indices are 0-5 year, based on weighted average life.

Trade Tensions with the United States' Largest Trading Partners Increases





Source: U.S. Census Bureau

Portfolio Characteristics and Investment Strategy

Portfolio Recap

- Interest rates plummeted in the second quarter, with yields on 2- to 5-year Treasury securities falling around 50 basis points (0.50%) to the lowest levels since 2017. Rates fell in response to slowing global growth expectations, weakness in manufacturing due to renewed trade disputes, low inflation, and expectations for multiple Fed rate cuts in the second half of the year. Much of the yield curve remains inverted, where longer-term yields are lower than short-term yields.
- U.S. equity markets reached new all-time highs in the quarter and credit-sensitive fixed income assets performed well despite elevated geopolitical risks and yield spreads on corporate bonds widening modestly over the quarter.
- Our strategy throughout the quarter included the following elements:
  - Broad diversification, generally including the widest range of permitted investments, which reduces the overall risk in the portfolio and provides the opportunity for better returns over the long term.
  - We maintained a portfolio duration in line with the benchmark. Maintaining a neutral duration—despite the inverted yield curve—drove strong market-value returns across most fixed-income sectors as market prices on fixed-income securities tend to rise as yields fall.
  - We continued to reduce federal agency and supranational allocations as their yields did not offer much value compared to treasury alternatives. This has been driven mainly by a lack of new supply, particularly in supranationals. Non-callable agencies generated small out-performance due to their modestly higher yields, but callable agencies underperformed as lower rates increased the likelihood of a call before maturity.
  - Corporate yield spreads remain tight by historical standards but widened briefly amid trade tensions. Corporates generated excess returns for the second consecutive quarter. We focused allocations on high quality issuers with relatively less exposure to international trade risks. We also had a slight preference for industrials over financials in the quarter.
  - We continued to modestly increase agency MBS allocations, specifically agency Commercial MBS (CMBS). Performance in the agency MBS sector was mixed for the second quarter, with agency CMBS outperforming pass-through securities. Asset-backed securities (ABS), while still a core holding, were modestly reduced as spreads declined to 10-year lows throughout the first half of the quarter, providing incremental returns relative to Treasuries. By June, ABS spreads began to widen slightly but still remained low by historical standards.
  - Short-term commercial paper and negotiable bank CD yield spreads narrowed in the second quarter, reducing their overall attractiveness. By quarter-end, the money market yield curve was also inverted.

Investment Program Summary

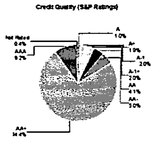
Investment Type	Amount	Yield	Note
CSIP Liquid	$18,897,193	2.44% Monthly Distribution	Liquidity pool
CSIP Term	$15,000,000	2.60% Weighted Average	Term maturities based on cash flow needs
Investment Portfolio	$40,775,931	2.41% Yield at Cost 1.89% Yield at Market	Benchmarked to the ICE BofAML 1-3 Year Treasury Index
Total	$74,673,124		

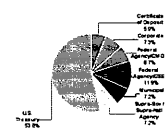
Source: PFM statement 06/30/2019

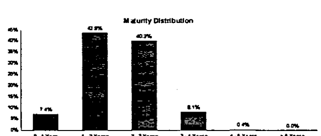
Portfolio Statistics

As of June 30, 2019

Par Value:	$40,130,001
Total Market Value:	$40,775,931
Security Market Value:	$40,487,799
Accrued Interest:	$288,131
Cash:	-
Amortized Cost:	$40,073,722
Yield at Market:	1.89%
Yield at Cost:	2.41%
Effective Duration:	1.84 Years
Duration to Worst:	1.79 Years
Average Maturity:	1.98 Years
Average Credit: *	AA



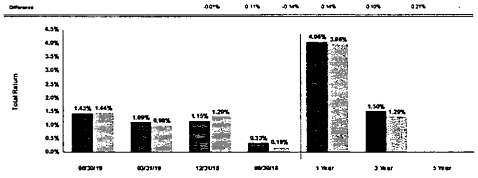




* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

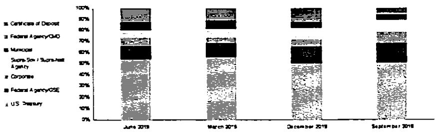
Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Quarter Ended 06/30/19	03/31/19	12/31/18	09/30/18	1 Year	Annualized Return 3 Year	5 Year
HIGHLANDS RANCH METRO DISTRICT	1.84	1.43%	1.09%	1.15%	0.33%	4.06%	1.50%	-
ICE BofAML 1-3 Year U.S. Treasury Index	1.81	1.44%	0.98%	1.29%	0.19%	3.96%	1.29%	-
Difference		-0.01%	0.11%	-0.14%	0.14%	0.10%	0.21%	-



Sector Allocation

Sector	June 30, 2019 MV ($MM)	% of Total	March 31, 2019 MV ($MM)	% of Total	December 31, 2018 MV ($MM)	% of Total	September 30, 2018 MV ($MM)	% of Total
U.S. Treasury	21.8	53.9%	22.3	55.7%	19.9	50.1%	19.7	50.2%
Federal Agency/GSE	4.8	11.9%	5.1	12.8%	6.0	15.1%	7.0	17.9%
Corporate	3.0	7.2%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Supra-Sov / Supra-Natl Agency	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Municipal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Federal Agency/CMO	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Certificate of Deposit	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	100.0%	[illegible]	100.0%	[illegible]	100.0%	[illegible]	100.0%



Detail may not add to total due to rounding.

Portfolio Holdings

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
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	600,000.00	AA+	Aaa	06/28/17	06/30/17	602,156.25	1.50	26.49	600,736.32	598,031.40
US TREASURY NOTES DTD 07/31/2015 1.625% 07/31/2020	912828XM7	1,825,000.00	AA+	Aaa	07/05/17	07/07/17	1,828,140.62	1.60	12,370.42	1,825,411.58	1,818,941.00
US TREASURY NOTES DTD 10/31/2015 1.375% 10/31/2020	912828L99	200,000.00	AA+	Aaa	10/17/17	10/17/17	198,031.25	1.71	463.32	199,125.08	198,703.20
US TREASURY NOTES DTD 10/31/2015 1.375% 10/31/2020	912828L99	750,000.00	AA+	Aaa	10/03/17	10/05/17	743,964.84	1.64	1,737.43	747,347.70	745,137.00
US TREASURY NOTES DTD 11/30/2015 1.625% 11/30/2020	912828M98	835,000.00	AA+	Aaa	11/01/17	11/03/17	831,379.49	1.77	1,149.27	833,310.70	832,259.06
US TREASURY NOTES DTD 12/31/2015 1.750% 12/31/2020	912828N48	390,000.00	AA+	Aaa	12/01/17	12/05/17	388,141.40	1.91	18.55	389,081.18	389,482.08
US TREASURY NOTES DTD 12/31/2015 1.750% 12/31/2020	912828N48	475,000.00	AA+	Aaa	12/01/17	12/06/17	472,680.66	1.91	22.59	473,852.29	474,369.30
US TREASURY NOTES DTD 01/31/2016 1.375% 01/31/2021	912828N89	1,350,000.00	AA+	Aaa	01/02/18	01/04/18	1,323,000.00	2.05	7,742.92	1,335,888.17	1,340,508.15
US TREASURY NOTES DTD 02/29/2016 1.125% 02/28/2021	912828P87	750,000.00	AA+	Aaa	02/15/18	02/16/18	721,845.70	2.42	2,820.14	734,291.57	741,533.25
US TREASURY NOTES DTD 05/15/2018 2.625% 05/15/2021	9128284P2	900,000.00	AA+	Aaa	02/28/19	02/28/19	901,898.44	2.53	3,017.32	901,630.00	913,887.00
US TREASURY NOTES DTD 06/02/2014 2.000% 05/31/2021	912828WN6	1,725,000.00	AA+	Aaa	06/04/18	06/06/18	1,694,340.82	2.62	2,922.13	1,705,052.85	1,732,412.33
US TREASURY NOTES DTD 08/15/2018 2.750% 08/15/2021	9128284W7	80,000.00	AA+	Aaa	12/27/18	12/31/18	80,362.50	2.57	826.52	80,296.21	81,653.12
US TREASURY NOTES DTD 08/15/2018 2.750% 08/15/2021	9128284W7	2,000,000.00	AA+	Aaa	08/05/18	08/07/18	2,001,640.53	2.72	20,662.98	2,001,213.88	2,041,328.00
US TREASURY NOTES DTD 01/15/2019 2.500% 01/15/2022	9128285V8	1,450,000.00	AA+	Aaa	02/08/19	02/11/19	1,452,888.67	2.43	16,723.07	1,452,529.05	1,477,413.70

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
U.S. Treasury Bond / Note											
US TREASURY NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US TREASURY NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US TREASURY NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US TREASURY NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UNITED STATES TREASURY NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US TREASURY NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Security Type Sub-Total		21,650,000.00					[illegible]	[illegible]	[illegible]	[illegible]	21,805,940.05
Supra-National Agency Bond / Note											
INTL BANK OF RECONSTRUCTION AND DEV NOTE	[illegible]	[illegible]	AAA	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INTER-AMERICAN DEVELOPMENT BANK	[illegible]	[illegible]	AAA	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ASIAN DEVELOPMENT BANK NOTES	[illegible]	[illegible]	AAA	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INTERNATIONAL FINANCE CORPORATION NOTE	[illegible]	[illegible]	AAA	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AFRICAN DEVELOPMENT BANK NOTE	[illegible]	[illegible]	AAA	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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
Supra-National Agency Bond / Note											
INTER-AMERICAN DEVELOPMENT BANK NOTE	[illegible]	[illegible]	AAA	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INTL BANK OF RECONSTRUCTION AND DEV NOTE	[illegible]	[illegible]	AAA	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Security Type Sub-Total		2,900,000.00					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Municipal Bond / Note											
FL ST BOARD ADMIN FIN CORP TXBL REV BD	[illegible]	750,000.00	[illegible]	[illegible]	[illegible]	[illegible]	750,000.00	[illegible]	[illegible]	750,000.00	[illegible]
CT ST TXBL GO BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NYC TRANS FIN AUTH NY TXBL REV BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NY ST DORM AUTH PITS TXBL REV BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CA ST TXBL GO BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CA ST TXBL GO BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UNIV OF CAL TXBL REV BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NYC TRANS FIN AUTH NY TXBL REV BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Security Type Sub-Total		2,895,000.00					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Federal Agency Collateralized Mortgage Obligation											

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
Federal Agency Collateralized Mortgage Obligation											
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHLMC MULTIFAMILY STRUCTURED P	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHLMC MULTIFAMILY STRUCTURED P	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FANNIEMAE-ACES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHMS [illegible]	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Security Type Sub-Total		[illegible]					[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Federal Agency Bond / Note											
FHLB NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FANNIE MAE NOTES	[illegible]	[illegible]	AA+	Aaa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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
Federal Agency Bond / Note											
FANNIE MAE NOTES DTD 06/25/2018 2.750% 06/22/2021	3135G0U35	550,000.00	AA+	Aaa	06/22/18	06/25/18	549,873.50	2.76	378.13	549,914.79	558,931.35
FEDERAL HOME LOAN BANKS NOTES (CALLABLE) DTD 09/20/2018 3.000% 09/20/2021	3130AEXY7	575,000.00	AA+	Aaa	09/13/18	09/20/18	575,000.00	3.00	4,839.58	575,000.00	575,794.88
FEDERAL HOME LOAN BANKS NOTES DTD 10/12/2018 3.000% 10/12/2021	3130AF5B9	800,000.00	AA+	Aaa	11/02/18	11/06/18	798,536.00	3.02	5,266.67	799,844.04	821,308.80
FANNIE MAE NOTES DTD 01/11/2019 2.625% 01/11/2022	3135G0U92	400,000.00	AA+	Aaa	01/29/19	01/31/19	400,304.00	2.62	4,958.33	400,090.44	408,308.80
FANNIE MAE NOTES DTD 01/11/2019 2.625% 01/11/2022	3135G0U92	405,000.00	AA+	Aaa	01/09/19	01/11/19	404,708.40	2.65	5,020.31	404,752.80	413,410.64
FEDERAL HOME LOAN BANK DTD 06/01/2012 2.125% 06/10/2022	313379Q69	800,000.00	AA+	Aaa	06/13/19	06/14/19	805,624.00	1.88	991.67	805,537.29	806,980.80
Security Type Sub-Total		4,735,000.00					4,737,408.88	2.59	26,790.50	4,738,638.07	4,798,188.25
Corporate Note											
THE PROCTER & GAMBLE CO CORP NOTES DTD 10/25/2017 1.900% 10/23/2020	742718FA2	105,000.00	AA-	Aa3	10/23/17	10/25/17	104,839.35	1.95	376.83	104,928.51	104,849.29
JOHNSON & JOHNSON CORP NOTE DTD 11/10/2017 1.950% 11/10/2020	478160CH5	165,000.00	AAA	Aaa	11/08/17	11/10/17	164,821.45	1.99	455.81	164,918.79	165,142.56
VISA INC (CALLABLE) CORP NOTES DTD 12/14/2015 2.200% 12/14/2020	92826CAB8	300,000.00	AA-	Aa3	05/30/19	06/14/19	298,434.00	2.54	311.67	298,563.70	300,470.70
WAL-MART STORES INC CORP NOTE DTD 10/20/2017 1.900% 12/15/2020	931142EA7	375,000.00	AA	Aa2	03/07/19	03/08/19	367,766.88	2.83	316.67	371,134.43	374,326.50
TOYOTA MOTOR CREDIT CORP CORP NOTES DTD 01/08/2019 3.050% 01/08/2021	89236TFQ3	150,000.00	AA-	Aa3	01/03/19	01/08/19	149,910.00	3.08	2,198.54	149,931.13	152,062.35

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
Corporate Note											
EXXON MOBIL CORPORATE (CALLABLE) NOTES DTD 03/03/2016 2.222% 03/01/2021	30231GAV4	400,000.00	AA+	Aaa	03/02/18	03/06/18	394,076.00	2.74	2,962.67	396,638.24	401,108.40
TOYOTA MOTOR CREDIT CORP NOTES DTD 04/13/2018 2.950% 04/13/2021	89236TEU5	155,000.00	AA-	Aa3	04/11/18	04/13/18	155,071.30	2.93	990.71	155,043.11	157,133.27
TOYOTA MOTOR CREDIT CORP NOTES DTD 04/13/2018 2.950% 04/13/2021	89236TEU5	245,000.00	AA-	Aa3	04/10/18	04/13/18	244,902.00	2.96	1,565.98	244,940.73	248,371.94
CHEVRON CORP (CALLABLE) NOTES DTD 03/03/2017 2.498% 03/03/2022	166764BN9	400,000.00	AA	Aa2	05/15/19	05/17/19	399,328.00	2.56	3,275.16	399,359.33	404,076.40
TOYOTA MOTOR CREDIT CORP DTD 04/12/2019 2.650% 04/12/2022	89236TFX8	250,000.00	AA-	Aa3	06/26/19	07/02/19	253,667.50	2.10	1,472.22	253,667.50	253,921.25
APPLE INC CORP NOTES DTD 05/13/2015 2.700% 05/13/2022	037833BY5	400,000.00	AA+	Aa1	06/12/19	06/14/19	405,100.00	2.25	1,440.00	405,020.06	406,301.20
Security Type Sub-Total		2,945,000.00					2,937,920.48	2.54	15,366.24	2,944,143.53	2,968,463.86
Certificate of Deposit											
WESTPAC BANKING CORP NY CERT DEPOS DTD 10/19/2018 2.970% 10/18/2019	96130AAK4	800,000.00	A-1+	P-1	10/18/18	10/19/18	800,000.00	2.97	16,830.00	800,000.00	801,651.20
WELLS FARGO BANK NA CERT DEPOS DTD 11/19/2018 3.080% 11/15/2019	9497P8JL0	800,000.00	A-1	P-1	11/16/18	11/19/18	800,000.00	3.08	15,381.33	800,000.00	802,549.76
BANK OF MONTREAL CHICAGO CERT DEPOS DTD 08/03/2018 3.190% 08/03/2020	06370REU9	775,000.00	A+	Aa2	08/01/18	08/03/18	775,000.00	3.23	22,799.64	775,000.00	780,389.35
Security Type Sub-Total		2,375,000.00					2,375,000.00	3.10	55,010.97	2,375,000.00	2,384,590.31
Managed Account Sub-Total		40,159,001.40					40,019,279.01	2.41	288,131.30	40,073,722.01	40,487,799.39

	Par	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Securities Sub-Total	$40,159,001.40	$40,019,279.01	2.41%	$288,131.30	$40,073,722.01	$40,487,799.39
Accrued Interest						$288,131.30
Total Investments						$40,775,930.69

Bolded items are forward settling trades.

Investment Strategy Outlook

- While we expect U.S. and global economic growth to moderate in the second half of the year amid elevated risks to the economy, we do not believe a recession is imminent.
- The Fed has officially shifted its stance on monetary policy from "patient" to "appropriate," and rates have continued to move lower. As such, our view is to continue to maintain a portfolio duration in line with the benchmark in order to minimize risk and optimize performance relative to the benchmark in the event yields continue to decline. While market-implied probabilities and economist surveys strongly suggest that the Fed will cut rates as early as July, the key questions of "when" and "how much" will drive our strategy over the rest of the year.
- Our outlook for each of the major fixed income sectors is as follows:
  - Federal agency spreads are very tight and we expect them to remain so. Although callable agency spreads are wider than they have been in a while, the sharp downward move in rates has reduced the likelihood of outperformance
  - In supranationals, supply constraints have led us to recalibrate our strategy to account for lower allocations. We will still seek to add supranationals to the portfolio as attractive issues become available.
  - As a result of the Fed's more accommodative stance and our positive view of the corporate sector, we will maintain corporate allocations and seek to modestly extend the duration of our allocations, while remaining diligent in our issuer and security selection process.
  - ABS spreads have recently widened back to levels that offer attractive incremental income compared to government and credit alternatives. We will seek to maintain allocations.
  - The decline in mortgage rates, increase in paydowns, and the Fed's ongoing reduction in the holdings of agency MBS on their balance sheet are expected to continue. Our focus will be on specific structures, like agency CMBS, that offer incremental income and prepayment stability.
  - Historically tight spreads have also reduced the range of high-quality, short-term credit issues that offer adequate incremental income to warrant purchase. Careful maturity selection around Fed meeting expectations will be an important consideration going forward, particularly with both the Treasury and credit yield curves inverted.

IMPORTANT DISCLOSURES

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- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- 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.
- MBS maturities are represented by expected average life.

GLOSSARY

- ACCRUED INTEREST: Interest that is due on a bond or other fixed income security since the last interest payment was made.
- AGENCIES: Federal agency securities and/or Government-sponsored enterprises.
- AMORTIZED COST: The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- BANKERS' ACCEPTANCE: A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- COMMERCIAL PAPER: An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- CONTRIBUTION TO DURATION: Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- DURATION TO WORST: A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- EFFECTIVE DURATION: A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- EFFECTIVE YIELD: The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- FDIC: Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- INTEREST RATE: Interest per year divided by principal amount and expressed as a percentage.
- MARKET VALUE: The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.
- NEGOTIABLE CERTIFICATES OF DEPOSIT: A CD with a very large denomination, usually $1 million or more, that can be traded in secondary markets.
- PAR VALUE: The nominal dollar face amount of a security.

GLOSSARY

- PASS THROUGH SECURITY: A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- REPURCHASE AGREEMENTS: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- SETTLE DATE: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- TRADE DATE: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- UNSETTLED TRADE: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. TREASURY: The department of the U.S. government that issues Treasury securities.
- YIELD: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM AT COST: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM AT MARKET: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.