

**Office of the Treasurer & Tax Collector**  
City and County of San Francisco

Tajel Shah, Chief Assistant Treasurer  
Robert L. Shaw, CFA, Chief Investment Officer



José Cisneros, Treasurer

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## Treasury Oversight Committee

*December 8, 2017*

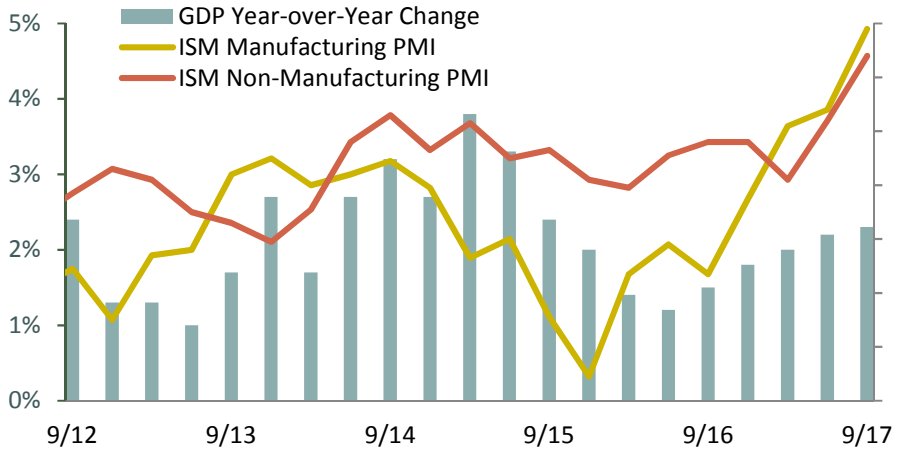
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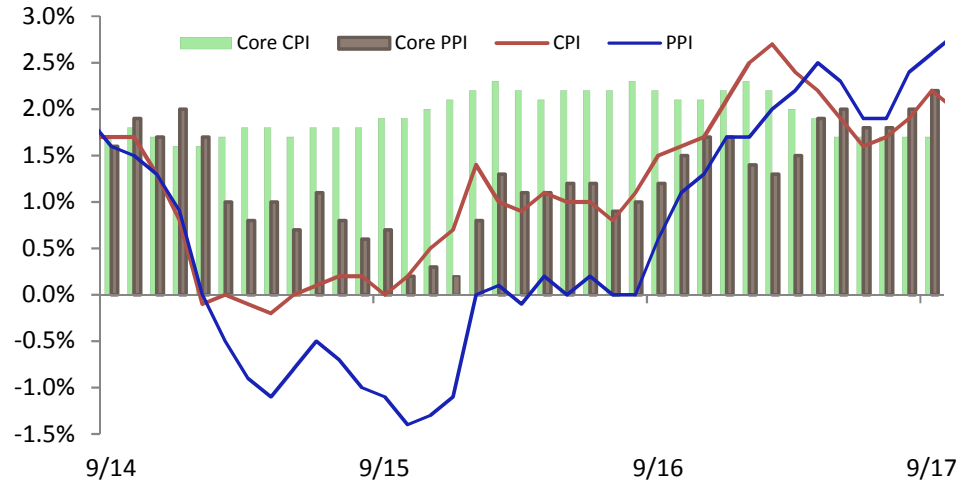
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# Key Economic Data

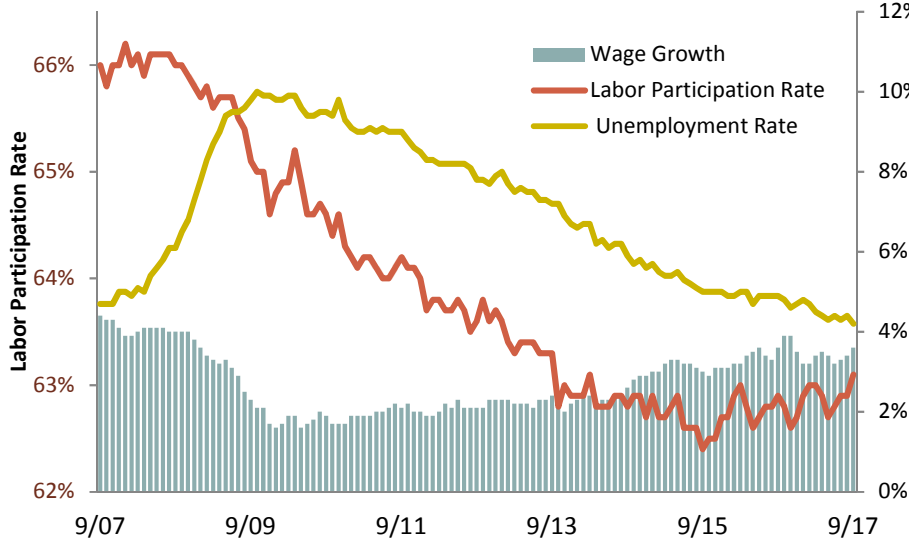
### Gross Domestic Product



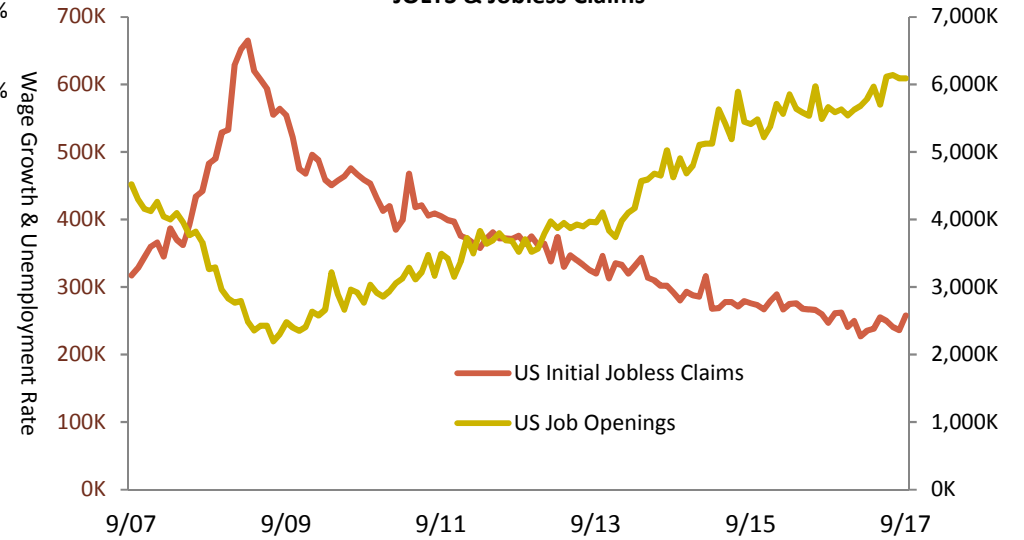
### Producer Price Index vs Consumer Price Index



### Employment

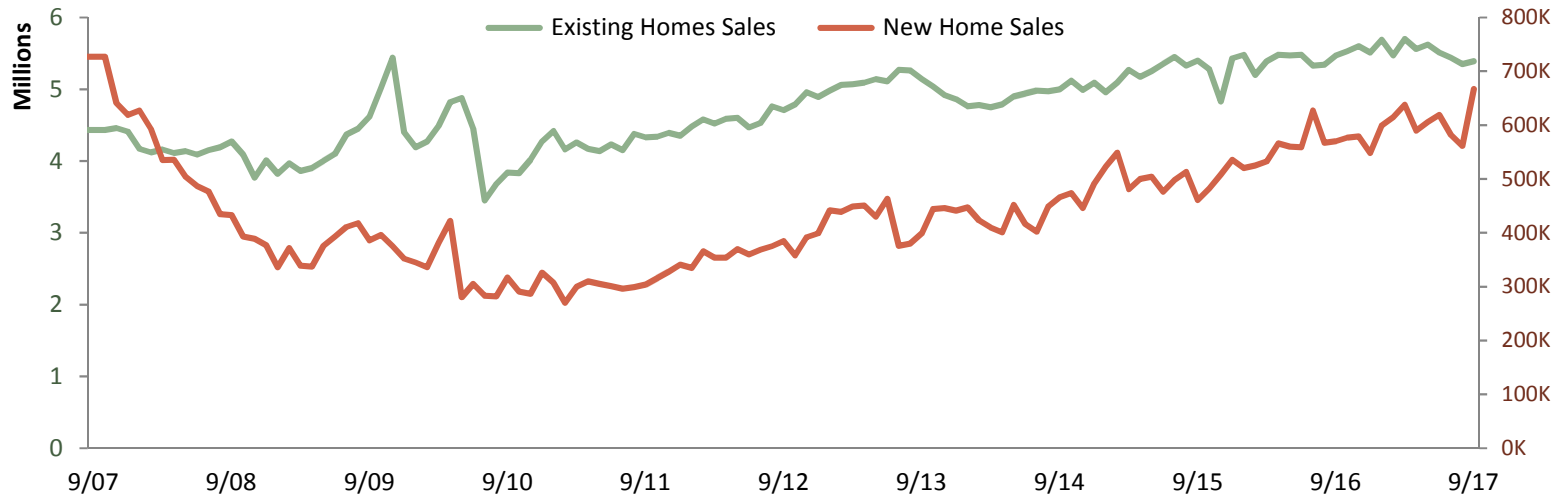


### JOLTS & Jobless Claims

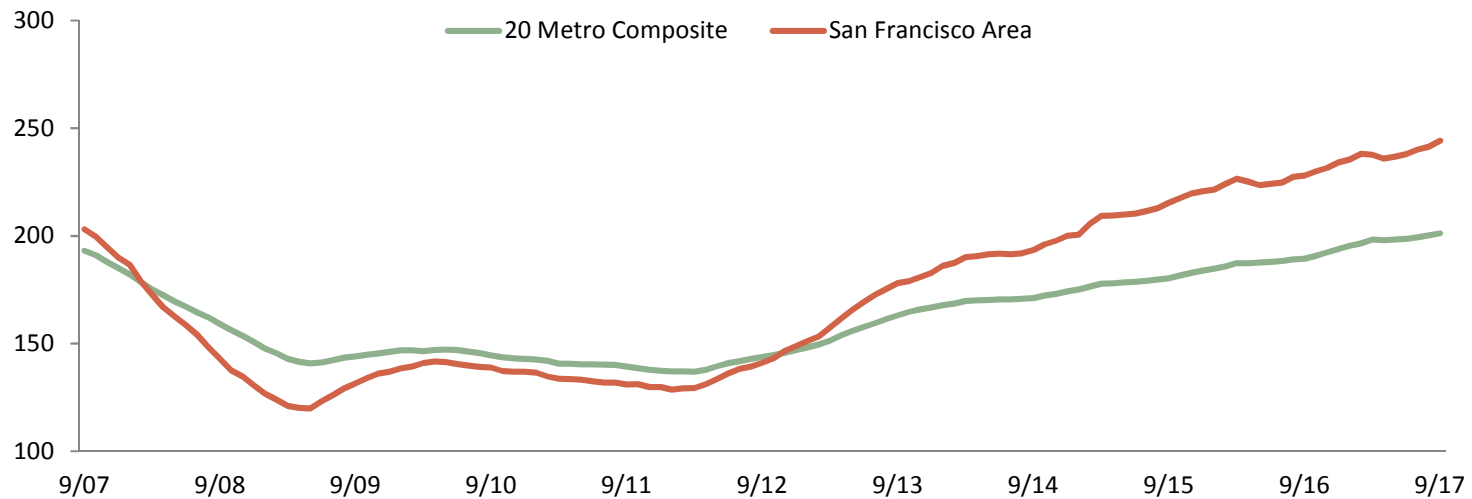


# Key Economic Data

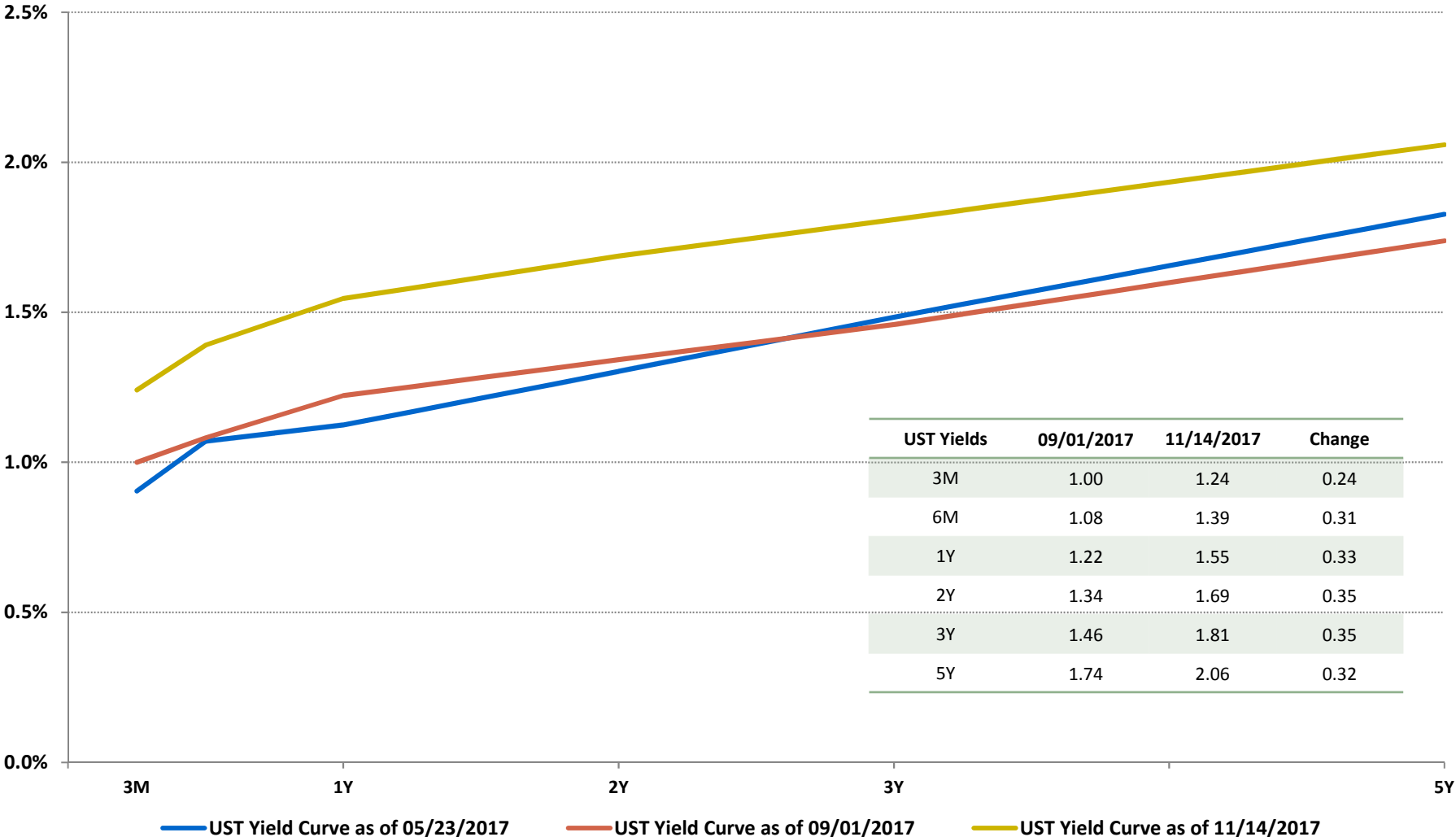
## Housing



## S&P/Case-Shiller Home Price Indices



# Yield Curve Changes



Source: Bloomberg

# Strategic Considerations

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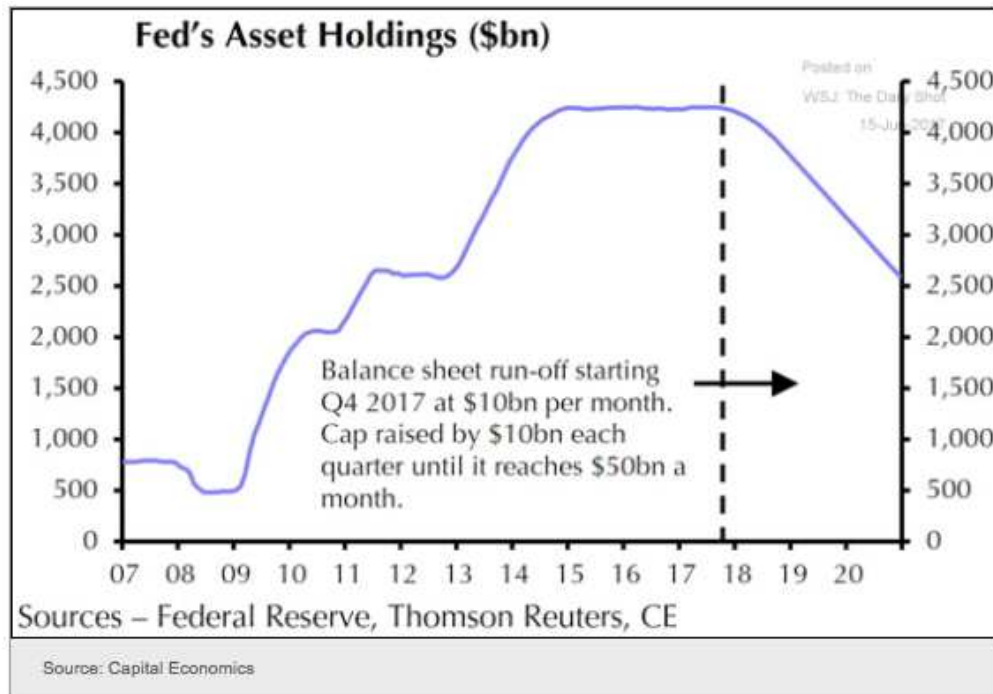
## Government Policy Issues:

- Monetary:
  - Jerome Powell – FOMC Member since 2012;
    - Lawyer by training;
    - First non economics PHD as chairman since prior to Alan Greenspan.
  - Issue: Will Powell continue the Yellen approach of slow and steady rate adjustments?
- Fiscal:
  - Tax Reform will introduce Short-Term economic stimulus;
  - Issue: Does the economy need a booster shot?

# Strategic Considerations

## Government Policy Issues:

- Federal Reserve's Balance Sheet - \$4.5 Trillion:



# Strategic Considerations

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## Government Policy Issues:

- Geo-political Risks:
  - Germany – Merkel having trouble forming a new Government;
  - UK & Brexit – 17 months after the vote and still no plan; and
  - North Korea.

## The Yield Curve – Will it Invert?

- Typically a “Bearish” signal for the economy; and
- Inversions occurred ahead of the recessions of 1981, 1991 and 2000 and two years ahead of the 2008 financial crisis.



# Strategic Considerations

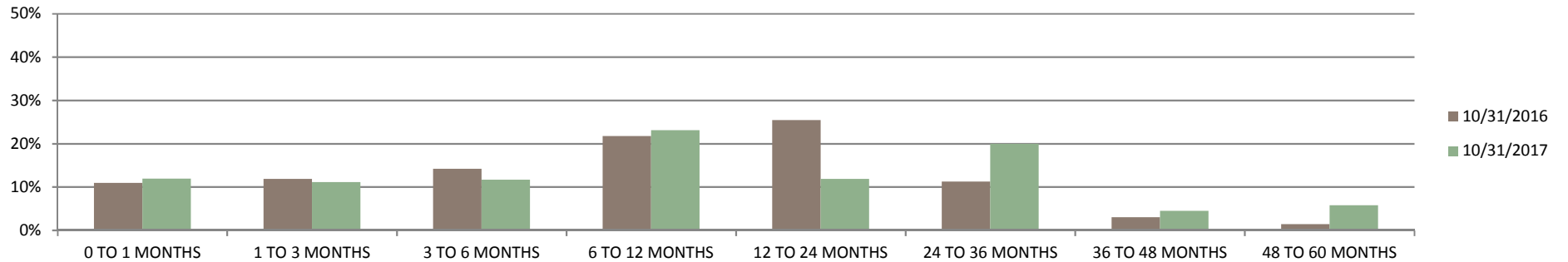
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## Portfolio Issues:

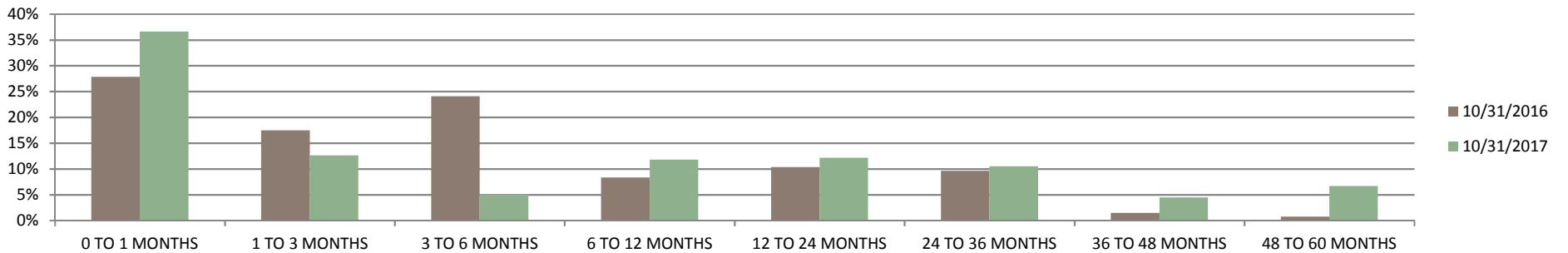
- Pool Liquidity Requirements:
  - Property Tax Season (November & December);
  - Debt Issuance (\$204 Million) from County Transportation Authority; and
  - New GO Bond Issuance (approx. \$630 Million) over remainder of Fiscal 2018
- Use Money Market Sector to Satisfy Liquidity Needs
- Extending Portfolio Duration: 0.95
  - 0.88 in August 2017; and
  - 0.68 in December 2016

# Historical Maturity Distribution Comparison

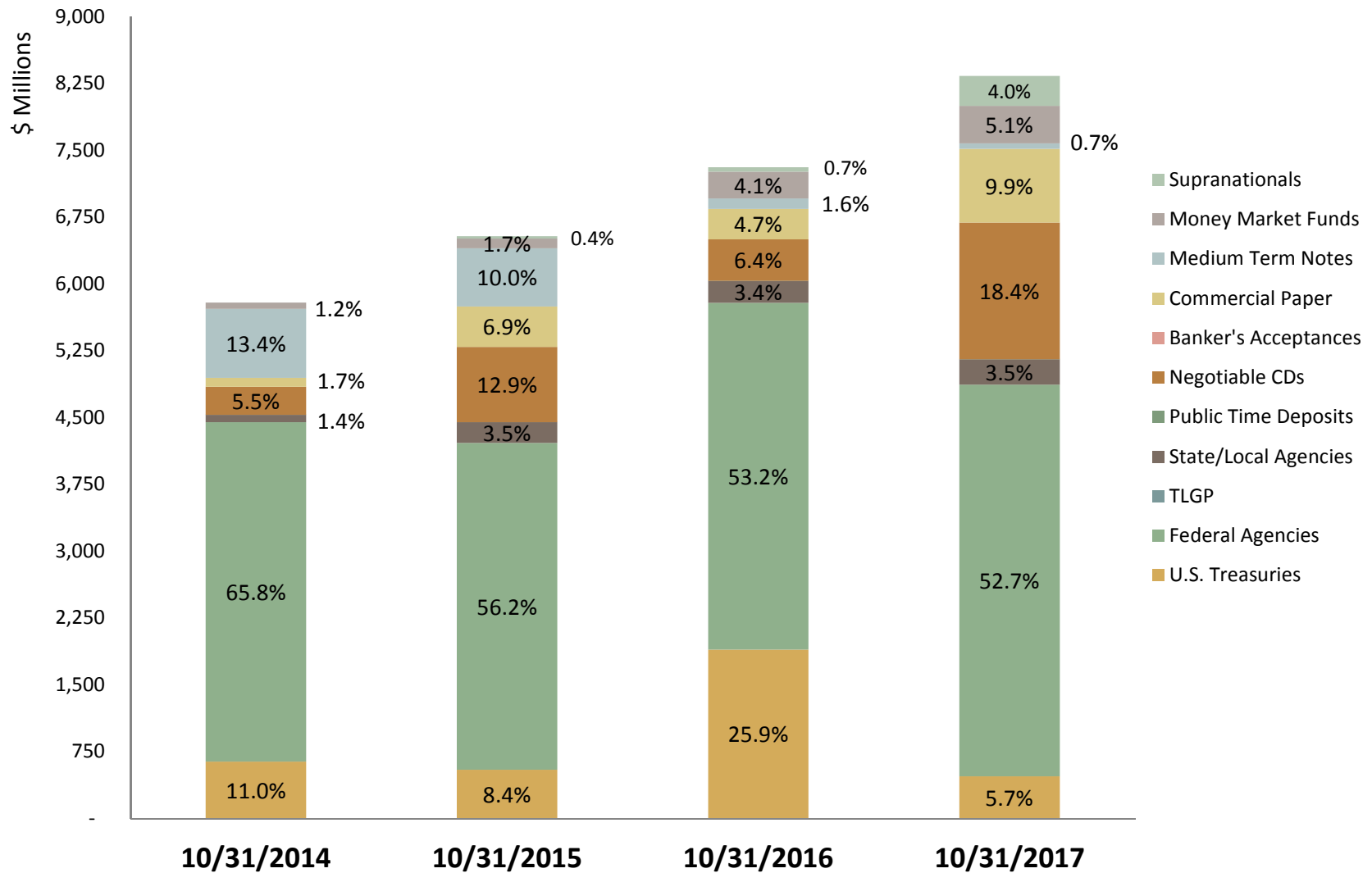
## Maturity Distribution



## Effective Maturity Distribution



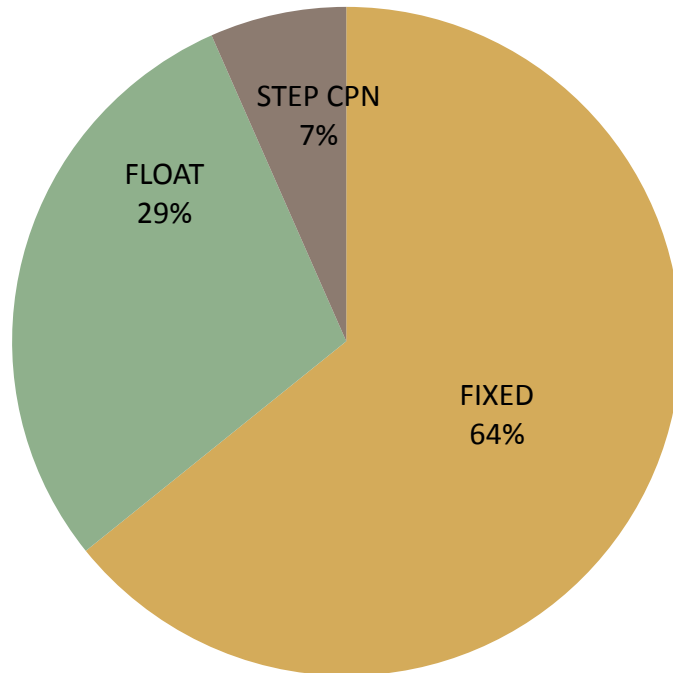
# Portfolio Comparison



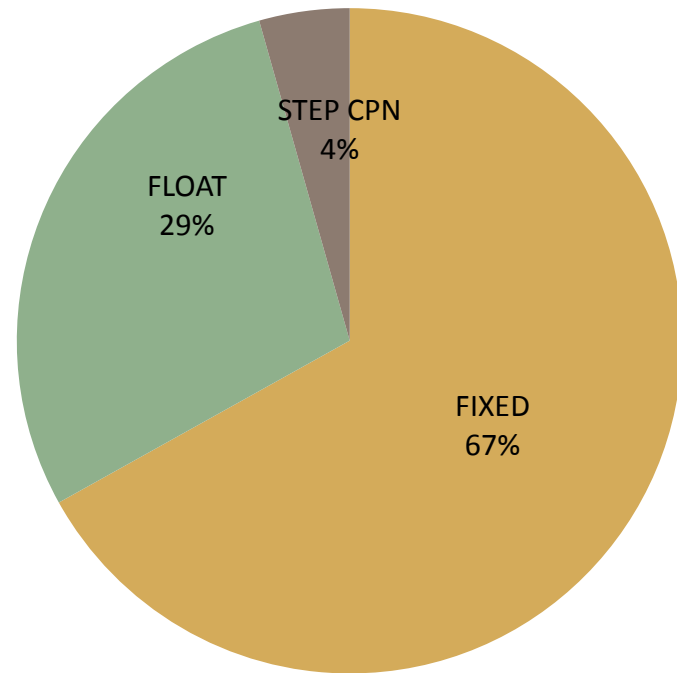
# Portfolio Comparison

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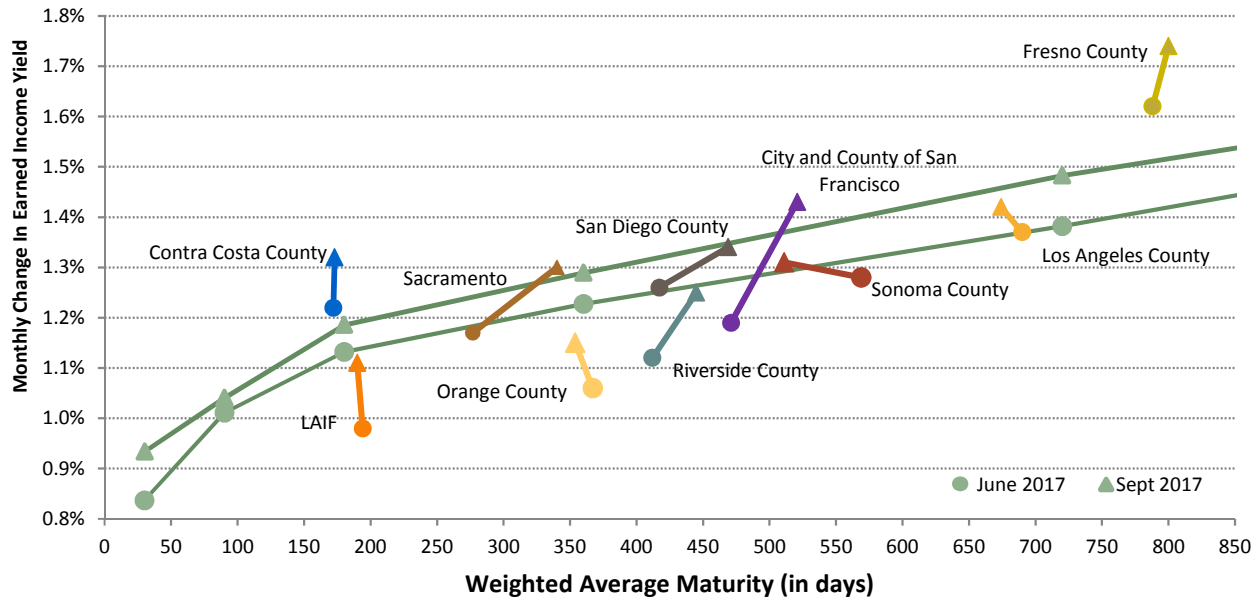
**10/31/2016**



**10/31/2017**



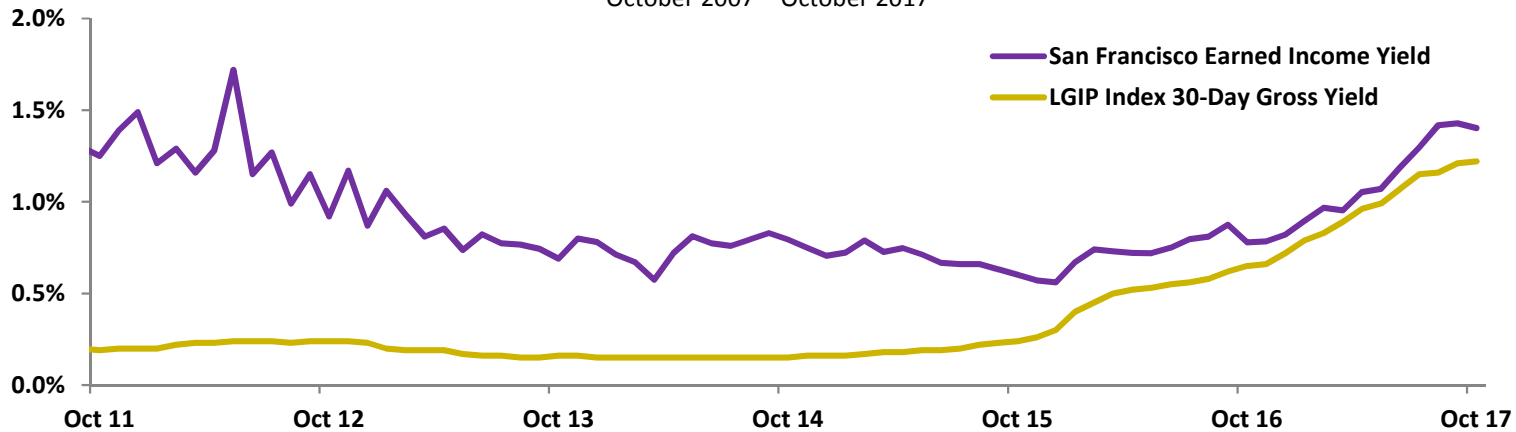
# County Pooled Fund Statistics



Name of Fund	Portfolio Size* (\$ mns)
Los Angeles County	\$25,421.0
LAIF	20,431.1
City and County of San Francisco	8,100.9
San Diego County	7,655.9
Riverside County	6,159.2
Orange County (ex. Schools)	3,855.9
Fresno County	3,114.0
Sacramento County	3,071.5
Contra Costa County	2,191.3
Sonoma County	1,905.9

\* as of Sept 2017

LGIP Index 30-Day Gross Yield  
October 2007 – October 2017



Sources: Bloomberg, Sacramento County as of 09/05/2017

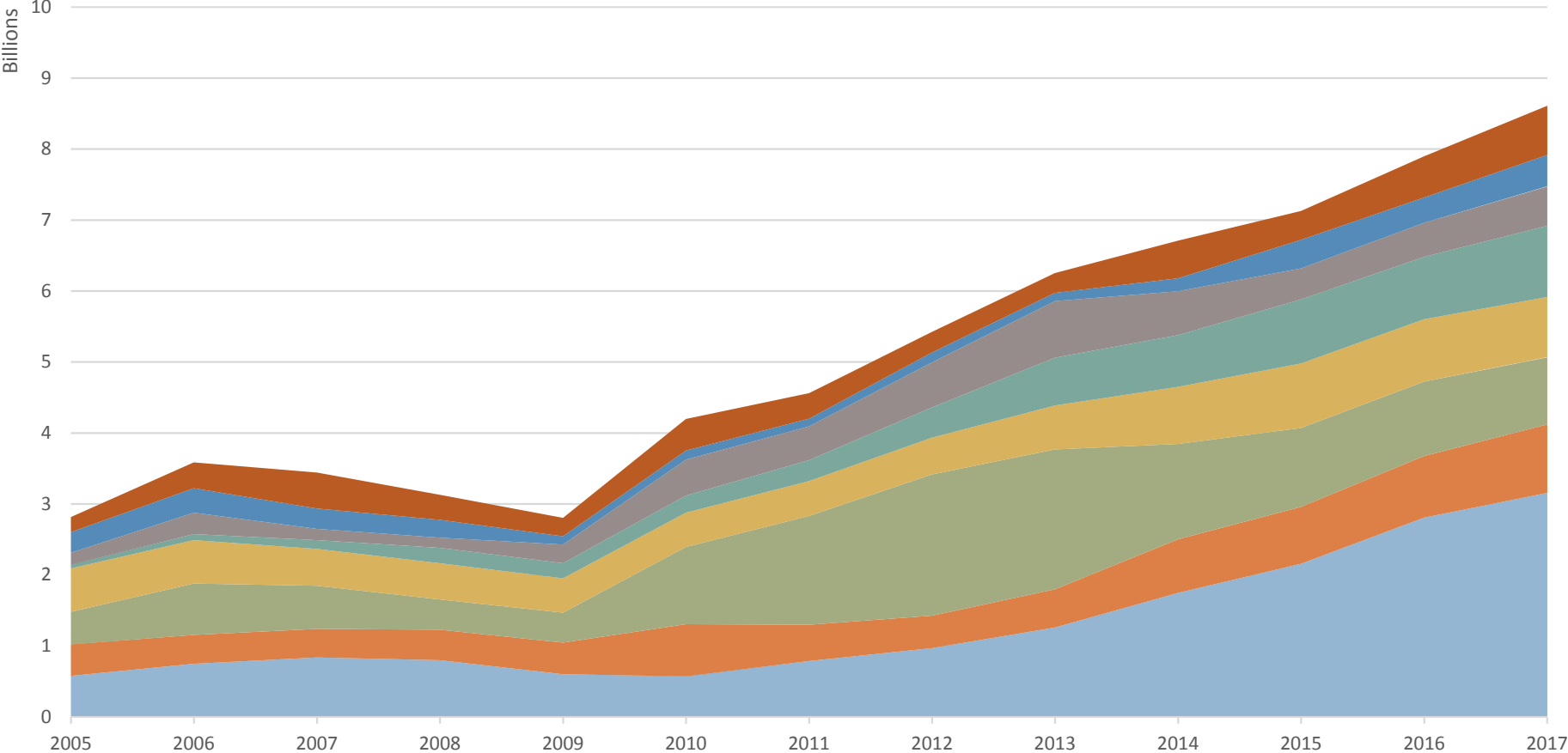
# Pool Participants Breakdown

As of June 30, 2017

Pool Participant	Equity Balance	Percent of Fund
General Fund/Special City Funds/Internal Services Funds	3,123,020,071	36.41%
San Francisco Municipal Transportation Authority	1,002,911,749	11.69%
San Francisco International Airport	964,864,818	11.25%
San Francisco Public Utilities Commission	944,775,648	11.02%
San Francisco Unified School District	694,397,122	8.10%
Facilities and Capital Projects Funds - General	555,034,339	6.47%
San Francisco General Hospital and Laguna Honda Hospital	440,841,073	5.14%
OCII - Successor Agency – former SFRDA	239,629,837	2.79%
Other agencies (incl. Transbay Joint Powers, Trial Courts)	185,271,000	2.16%
Port of San Francisco	180,845,365	2.11%
San Francisco Community College District	157,905,625	1.84%
Pension and Retiree Health Care Trust Fund	50,764,826	0.59%
San Francisco County Transportation Authority	35,968,938	0.42%
<b>Totals</b>	<b>\$8,576,230,411</b>	<b>100.0%</b>

# Pool Participants Trends

June 30, 2005 - June 30, 2017

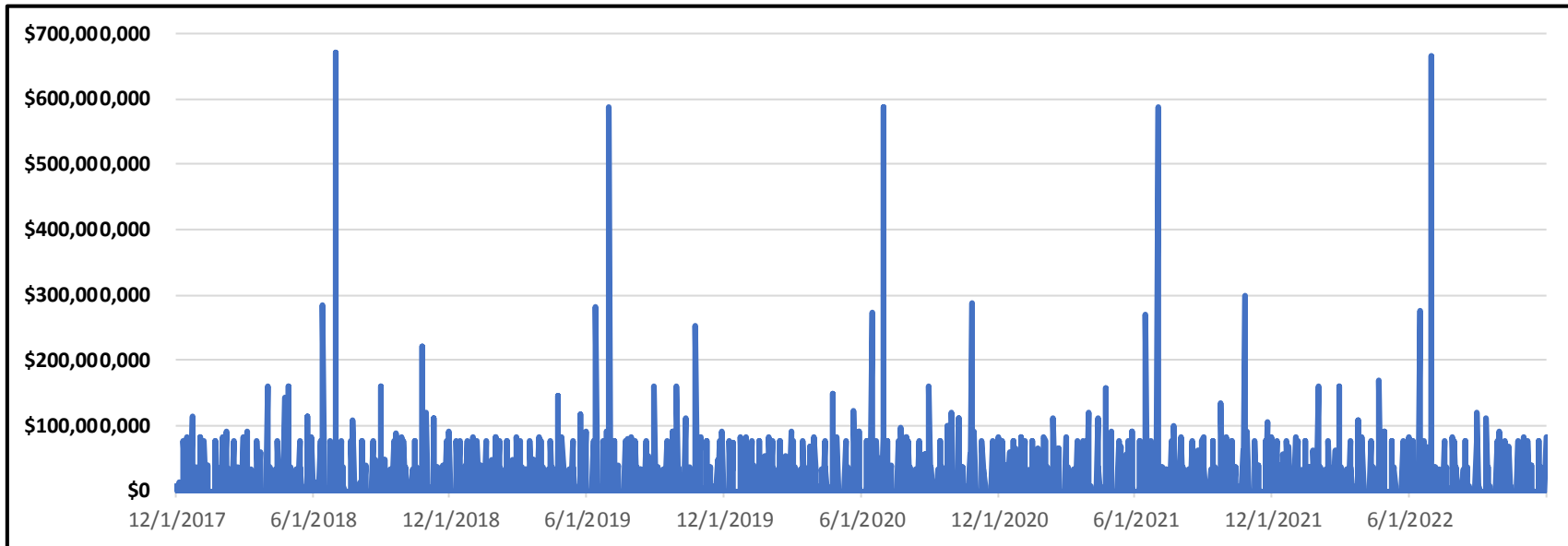


- General Fund/Special City Funds/Internal Services Funds
- San Francisco International Airport
- San Francisco Public Utilities Commission
- Other
- San Francisco Municipal Transportation Authority
- Facilities and Capital Projects Funds - General
- San Francisco General Hospital and Laguna Honda Hospital
- San Francisco Unified School District

Source: Cognos Impromptu

# Forecast Outflows

Next 5 Years to November 2022



## What is currently being captured:

1. Pension Contribution - July of each Fiscal Year;
2. Payroll (every two weeks);
3. Payroll Tax Payments (Monthly); and
4. Debt Service Payments (CCSF, SFO, PUC)

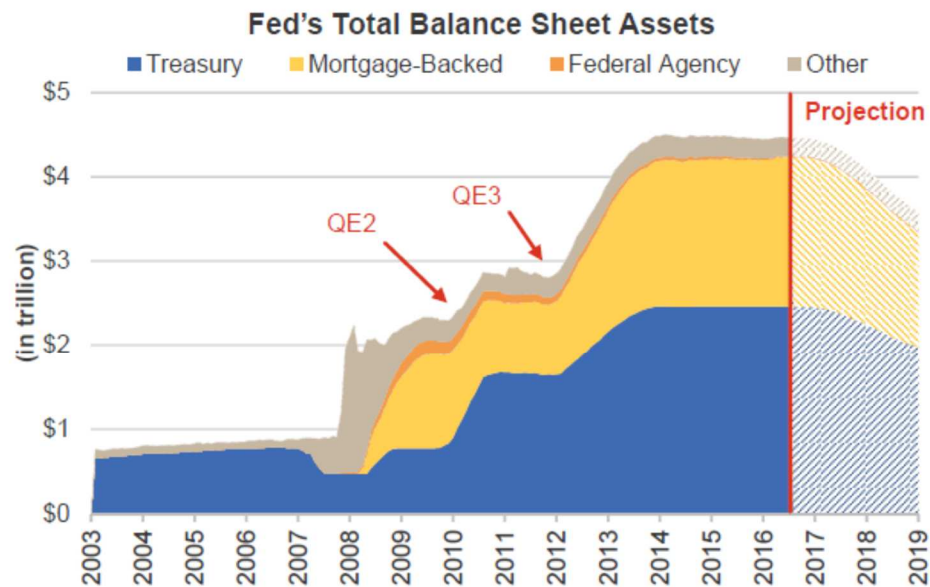


# Appendix

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## Fed's Balance Sheet Normalization Plan

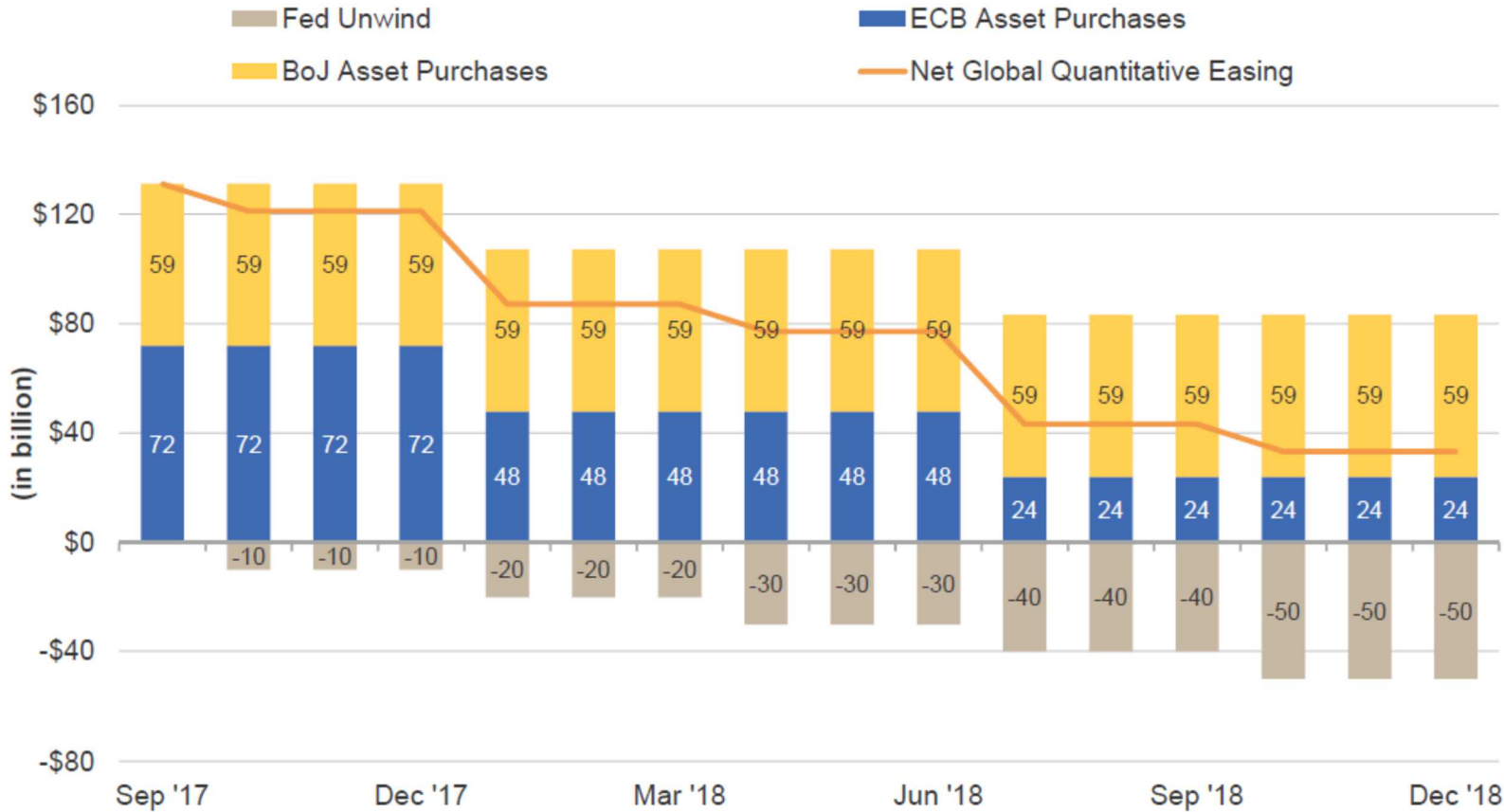
- The Federal Reserve has announced the commencement of its plan to reduce the size of its balance sheet, which grew to \$4.5 trillion after multiple rounds of quantitative easing following the 2008 financial crisis.
- Starting October, the Fed will gradually reduce its holdings by decreasing reinvestments of principal payments on its U.S. Treasury and agency mortgage-backed securities. The pace of this decline will start at a cap of \$10 billion per month, increasing by \$10 billion per month every three months, until it reaches \$50 billion per month.



(in billion)	Treasury Holdings	MBS Holdings	Total Fed Assets
Sep 2017	\$2,465	\$1,770	\$4,460
Dec 2019 (Projected)	\$1,965	\$1,350*	\$3,540
<b>Difference:</b>	<b>\$(500)</b>	<b>\$(420)*</b>	<b>\$(920)</b>

\*MBS projection assumes that principal payments will always exceed the cap over the horizon period (i.e. the monthly run off amount is equal to the cap).

# Global Central Bank Easing May Offset Fed Unwinding



Source: WSJ Daily Shot, Bloomberg estimates. Fed unwind based on Treasury and MBS caps, ECB asset purchases based on Bloomberg estimates, BoJ asset purchases based on 80 trillion yen annual guideline.