

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

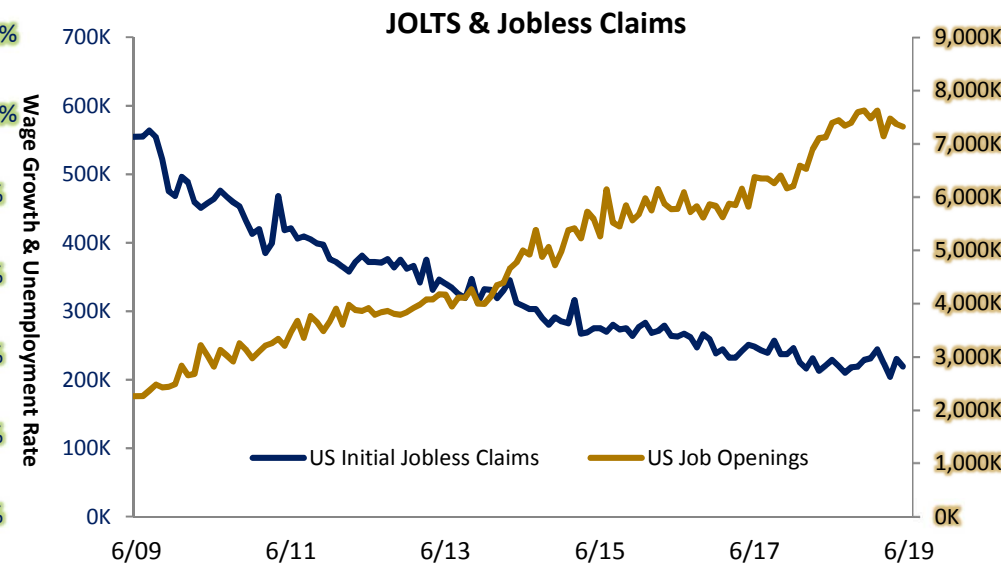
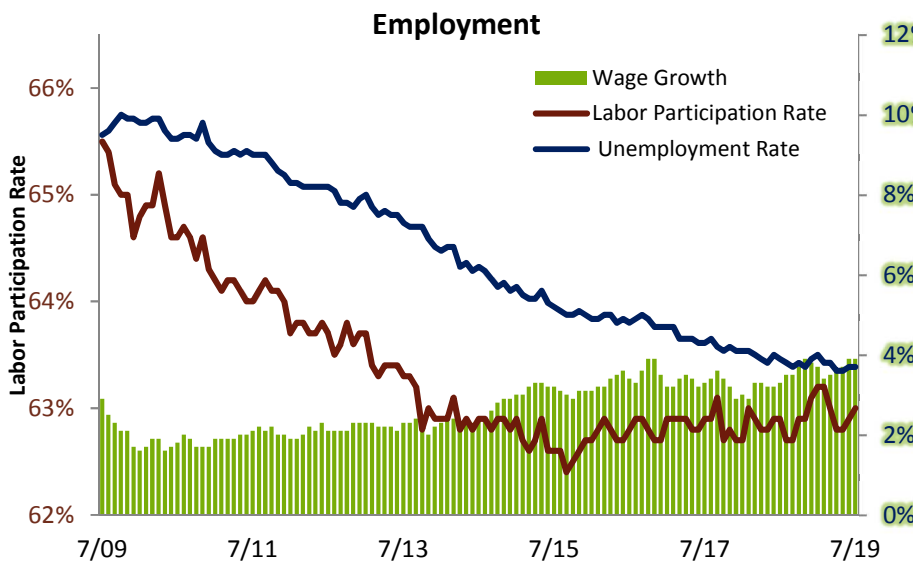
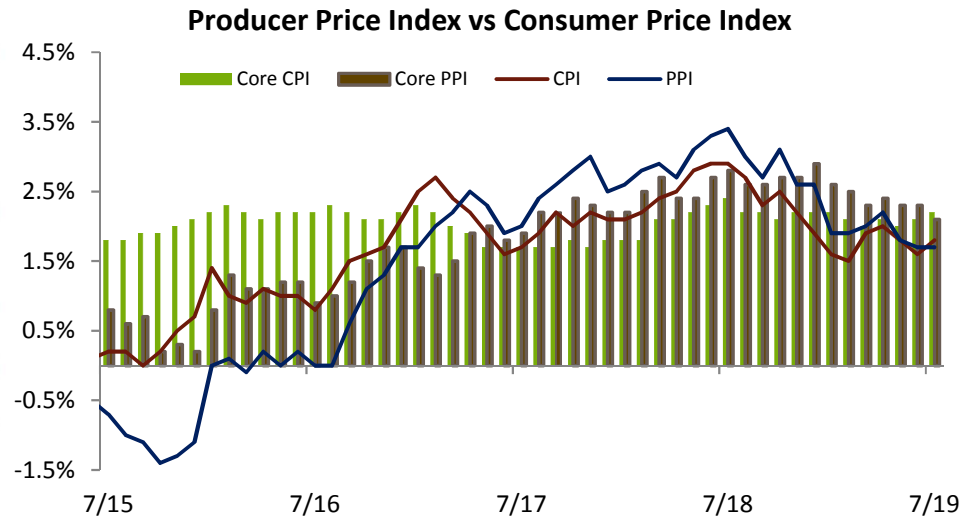
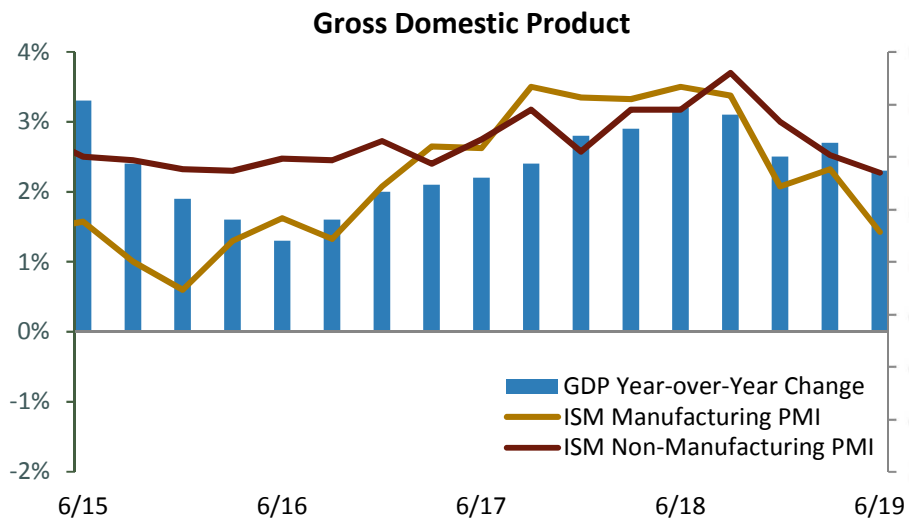
Treasury Oversight Committee

August 23, 2019

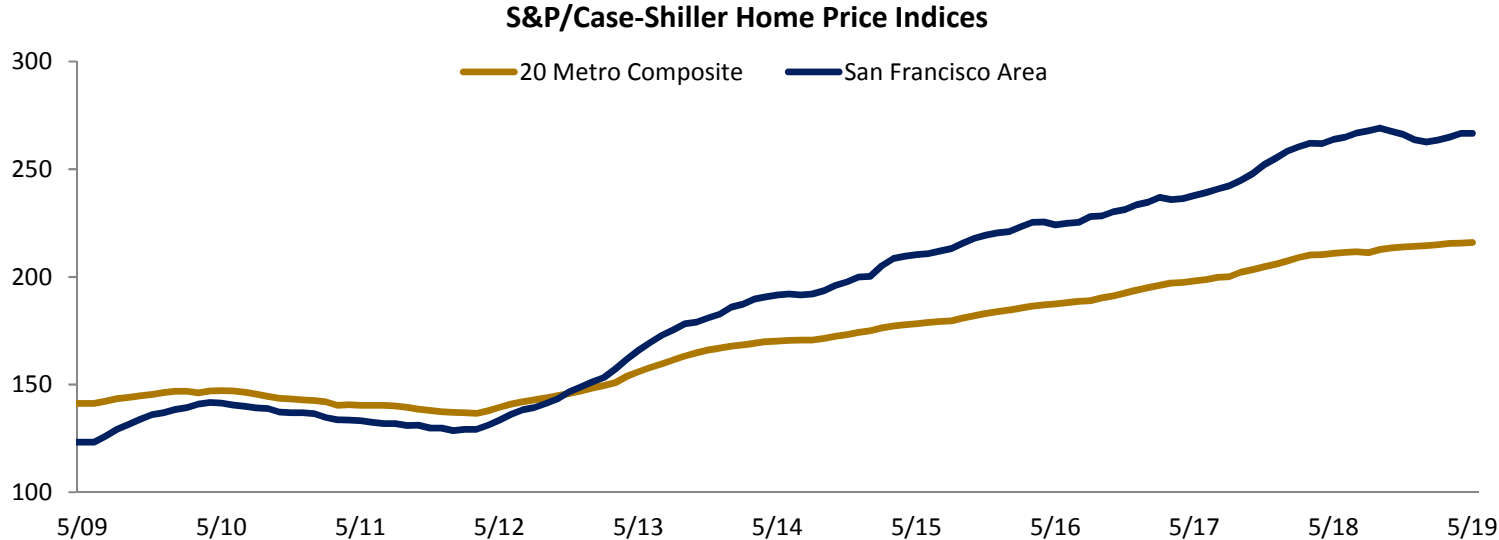
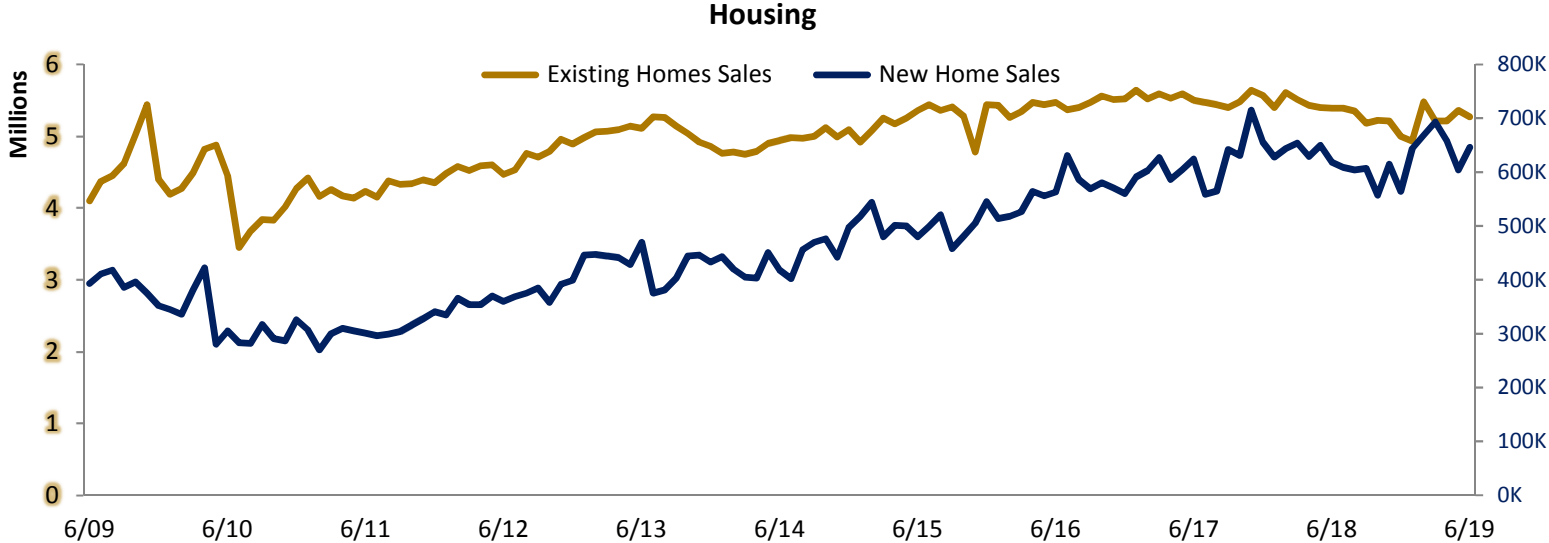
Table of Contents

Economic & Market Overview	3-5
Strategy	6-8
The Economic Outlook	9-14
Pooled Fund Review	15-18
Pool Participants Breakdown	19-20
July Monthly Report 2019	Separate handout

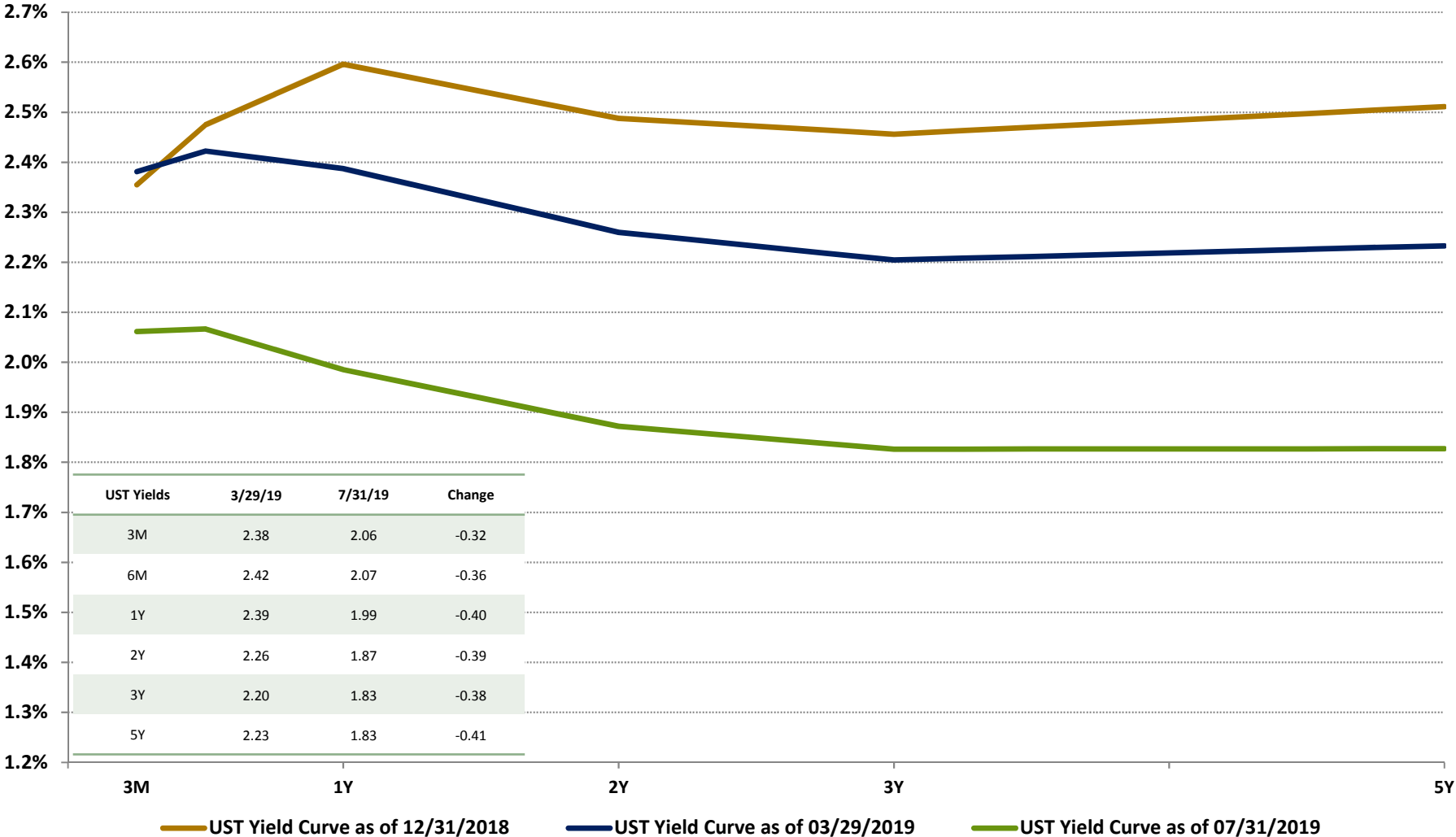
Key Economic Data



Key Economic Data



Yield Curve Changes



Source: Bloomberg

Strategic Considerations

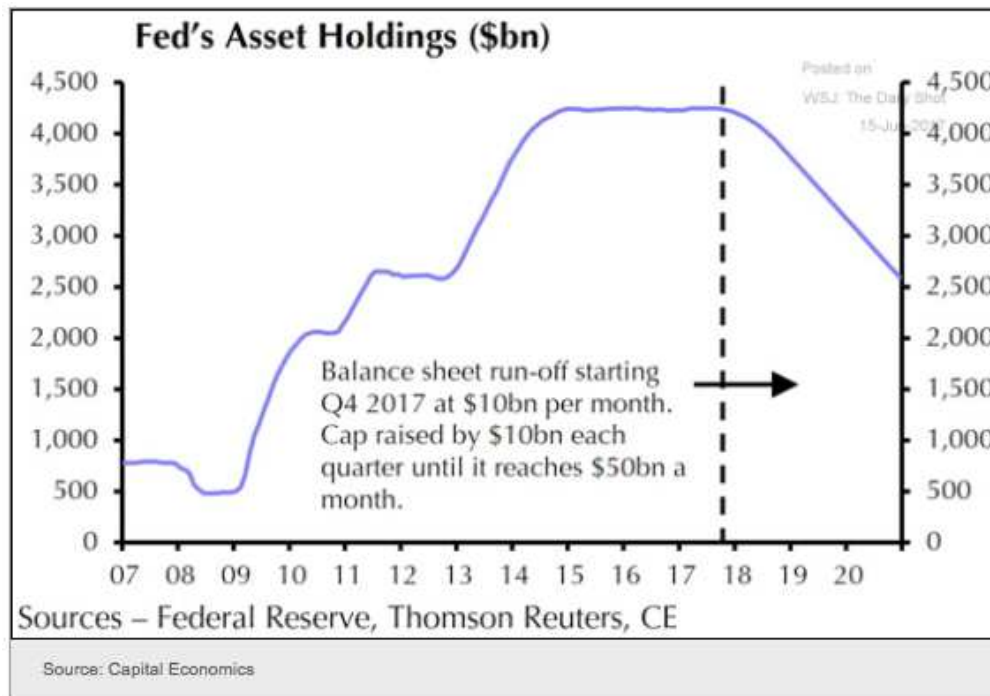
Policy Issues:

- Monetary – Moved from Pause to Cut:
 - 07/31/2019: Cut by 0.25% - 1st Cut since December 2008; and
 - 2019 Rate Decrease Probability:
 - 09/18/2019: Second cut of 0.25% is at 99%;
 - 10/30/2019: Third cut of 0.25% is at 75%.
- Fiscal:
 - Tax Reform – No Change:
 - Corporate. Buybacks remain focus;
 - Repatriation of Earnings, but not investing in factories / jobs in US; and
 - Individual. One-time Bonus, not Pay Raises.
 - Tariffs: Little shifting of production to United States; and
 - Trade: The New NAFTA, China and Europe.

Strategic Considerations

Government Policy Issues:

- Federal Reserve's Balance Sheet - \$4.5 Trillion (Fall 2017):



- \$3.8 Trillion (July 2019); and
- Run-off of Balance Sheet to Halt in September.

Strategic Considerations

Portfolio Issues:

- Outflows:
 - June: Semi-Annual Debt Service (\$350 Million+); and
 - July: Annual Pension Funding (\$703 Million).
- Use Money Market Sector to Satisfy Liquidity Needs
- Portfolio Duration: 0.72 (July 2019):
 - 0.99 December 2018;
 - 0.95 in December 2017; and
 - 0.68 in December 2016.
- Duration is an Outcome, not an Objective. Approach is:
 - Purchasing Securities that mature on (or slightly before) a known need – such as Payroll, Debt Service, Capital Projects, etc.; and
 - Opportunistic Investing.

The Economic Outlook

Goldilocks Zone – Still There

Factor

Low unemployment rate

Increasing asset prices (stocks, real estate, etc.);

Low Interest rates;

Brisk but steady GDP growth; and

Low inflation

Current Situation

3.6% (down from 3.7%)

S&P 500 (+15.7% - since 2009 Trough)

Below historical norms & Falling

> 2.5% past several years

Low (1.8%) & below target

Counterpunching:

- Labor participation rate is stubbornly low – despite the large number of job opening;
- Asset prices (such as US Equities) have been very volatile over the past 10-12 months;
- Interest Rates: Shifted quickly from Increases to Decreases;
- GDP: The best positive among the factors; and
- Average Hourly Earnings remains above 3.0%.

Future Rate Changes

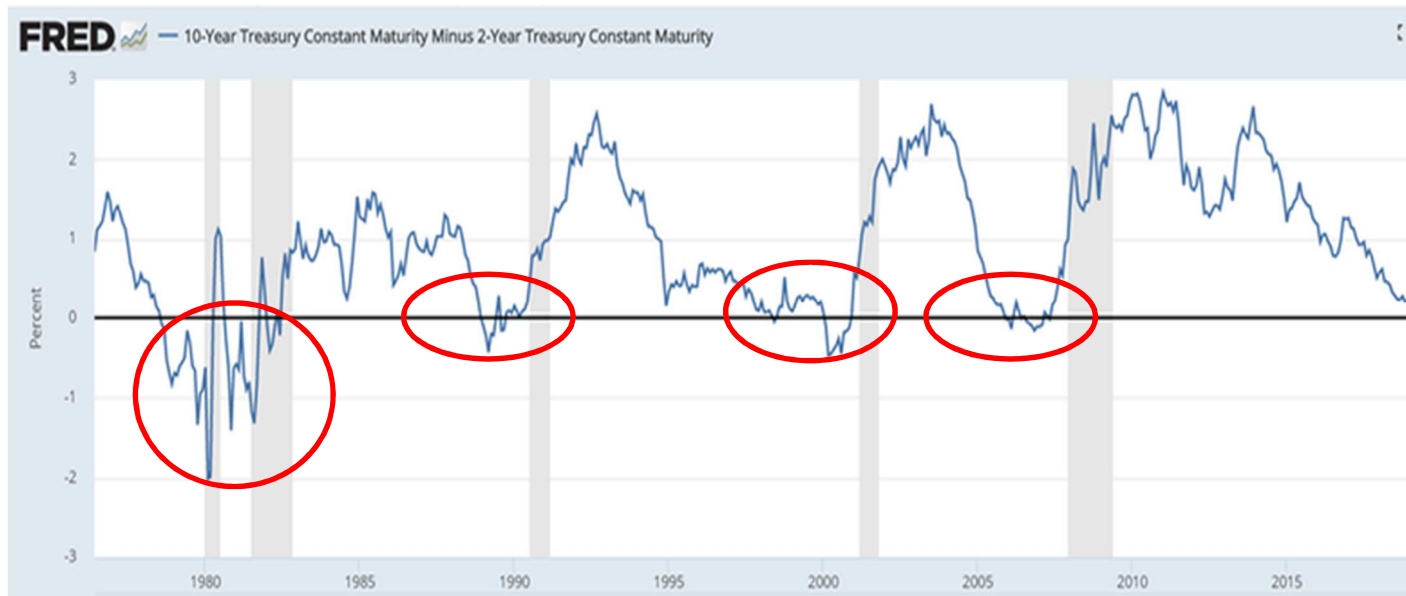
Moving into the inflection zone:

- Fed Funds: 2.00% - 2.25% Range;
- +2.00% (9 Rate Increases & 1 Decrease since December 2015);
- June Fed Minutes changed the tone;
- Market is forecasting **1-2 More rate Decreases** in 2019; and
- Forecast (Fed Dot Plot):
 - September 2018: Target Range was 3.25% - 3.50%;
 - December 2018: Target Range now 3.00% - 3.25%;
 - March 2019: Target Range was 2.50% - 2.75%;
 - June 2019: Target Range now 2.25% - 2.50%;

Pool Impact:

- Yield Curve Inverted between 2 years (1.65%) and 5 years (1.56%)
- Makes longer dated bonds less attractive.

Yield Curve Inversions & Recessions

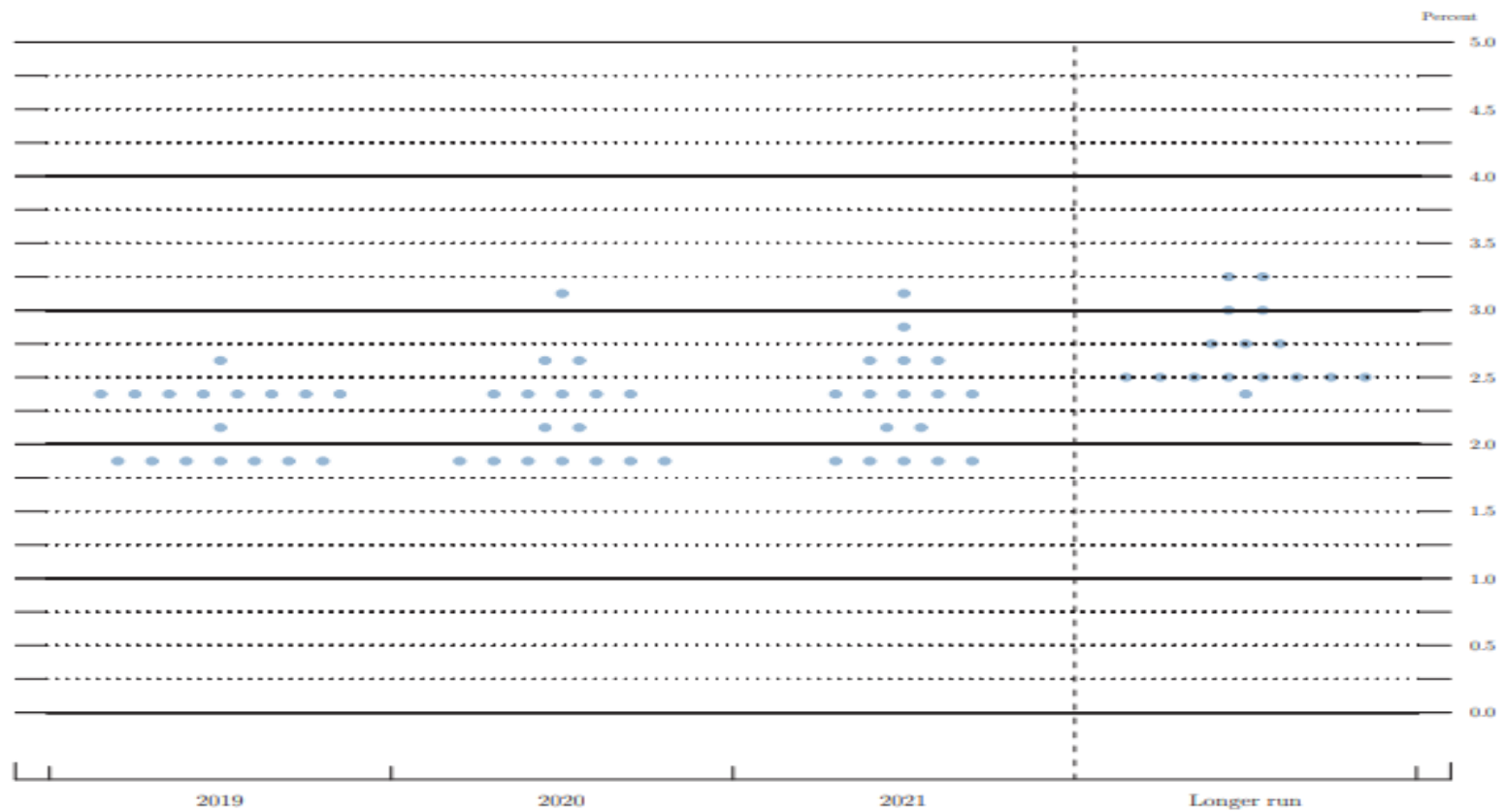


Date of inversion	Start of recession	Number of months
9/17/1978	1/2/1980	15.5
9/12/1980	7/1/1981	10
8/11/1989	7/1/1990	11
2/2/2000	3/1/2001	13
2/1/2006	12/1/2007	22

The Dot Plot – June 2019

For release at 2:00 p.m., EDT, June 19, 2019

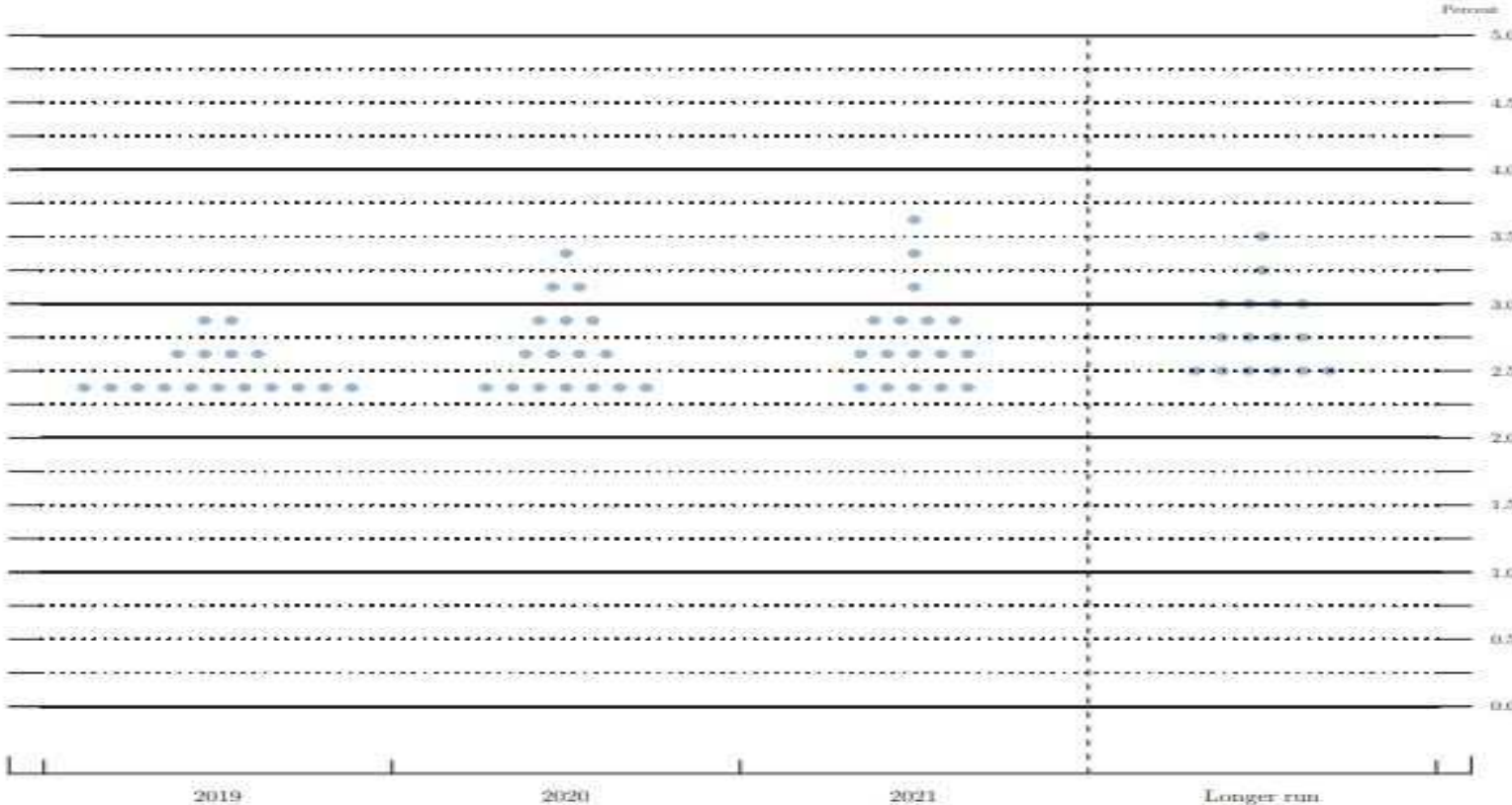
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The Dot Plot – March 2019

For release at 2:00 p.m., EDT, March 20, 2019

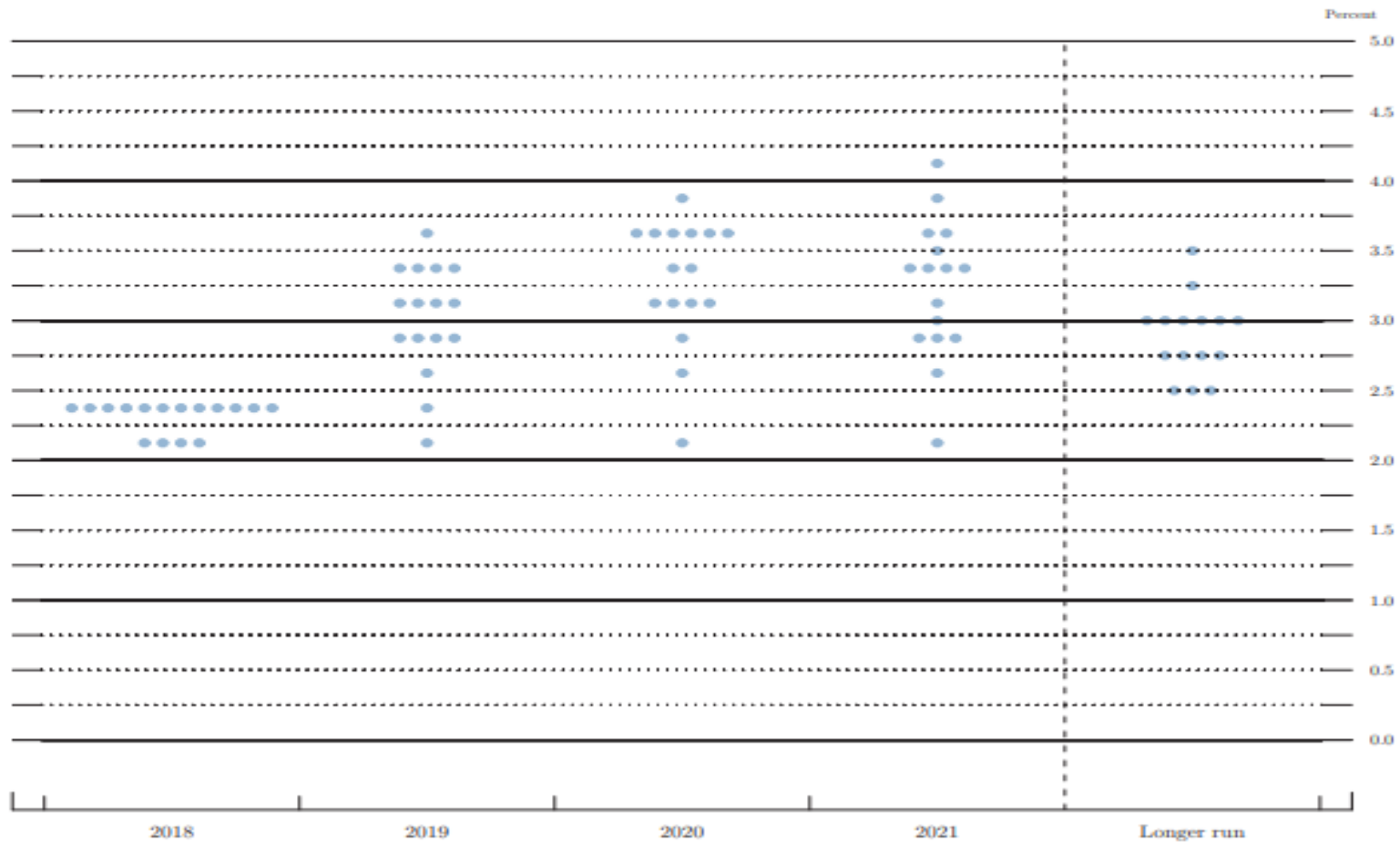
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



The Dot Plot – December 2018

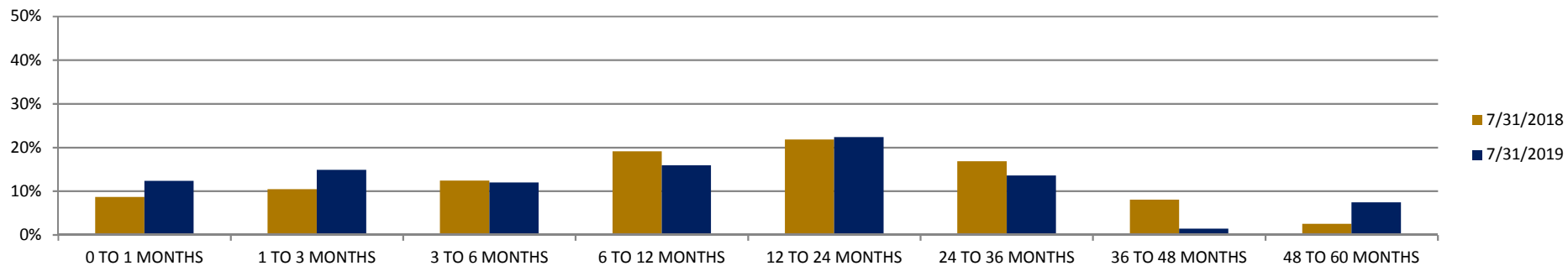
For release at 2:00 p.m., EDT, September 26, 2018

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

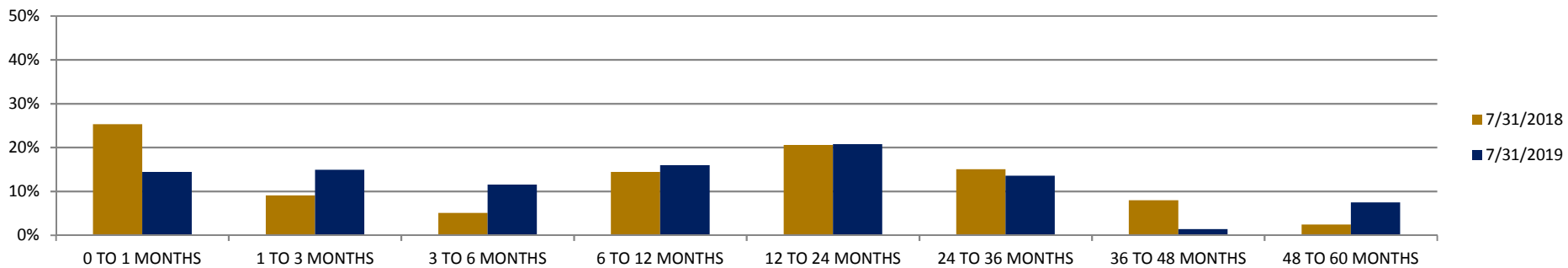


Historical Maturity Distribution Comparison

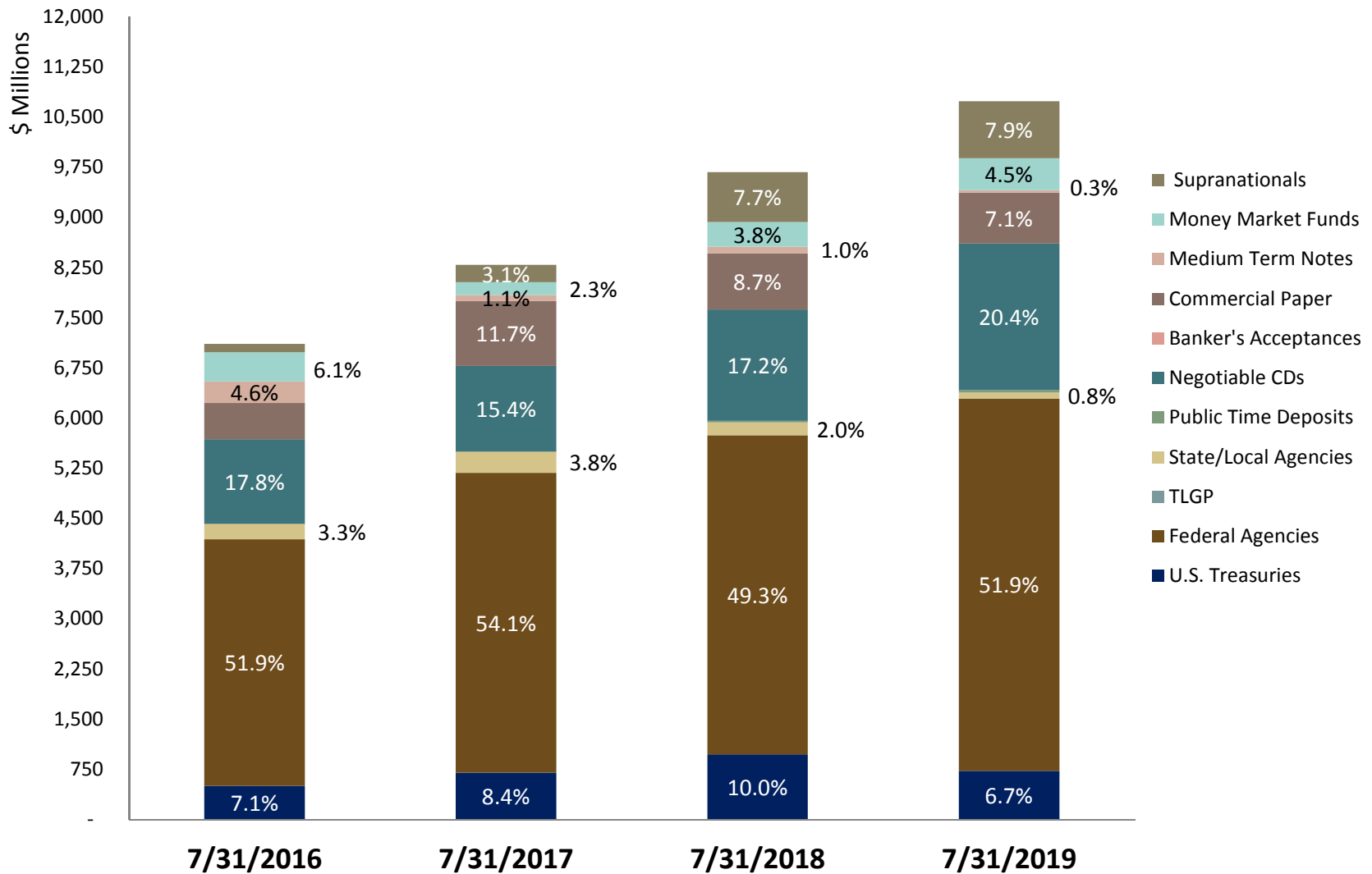
Maturity Distribution



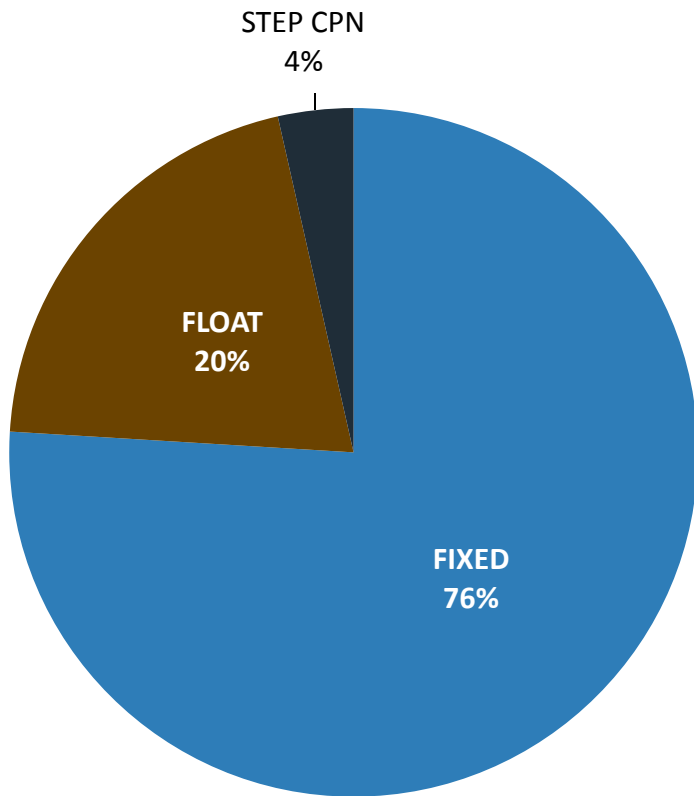
Effective Maturity Distribution



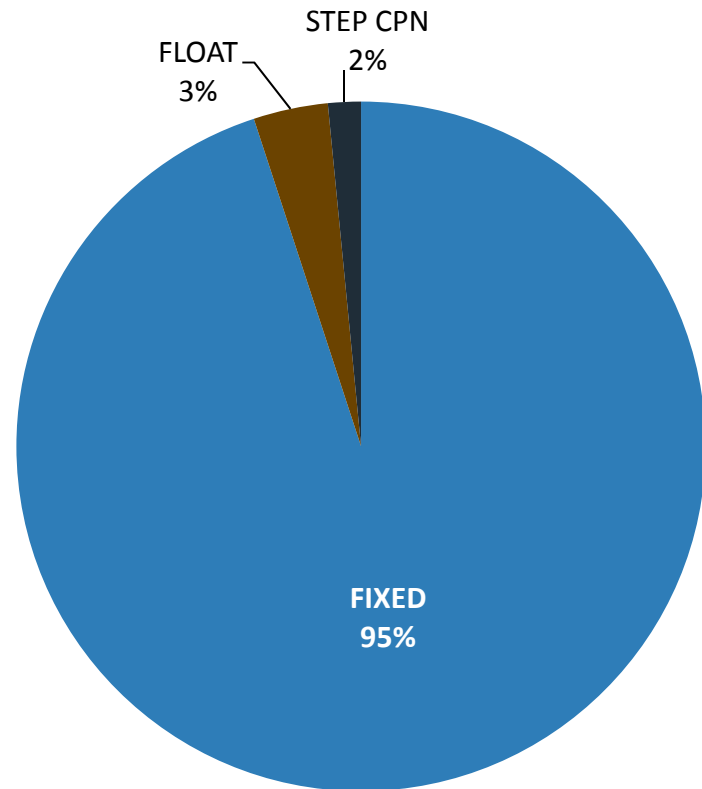
Portfolio Comparison



Portfolio Comparison

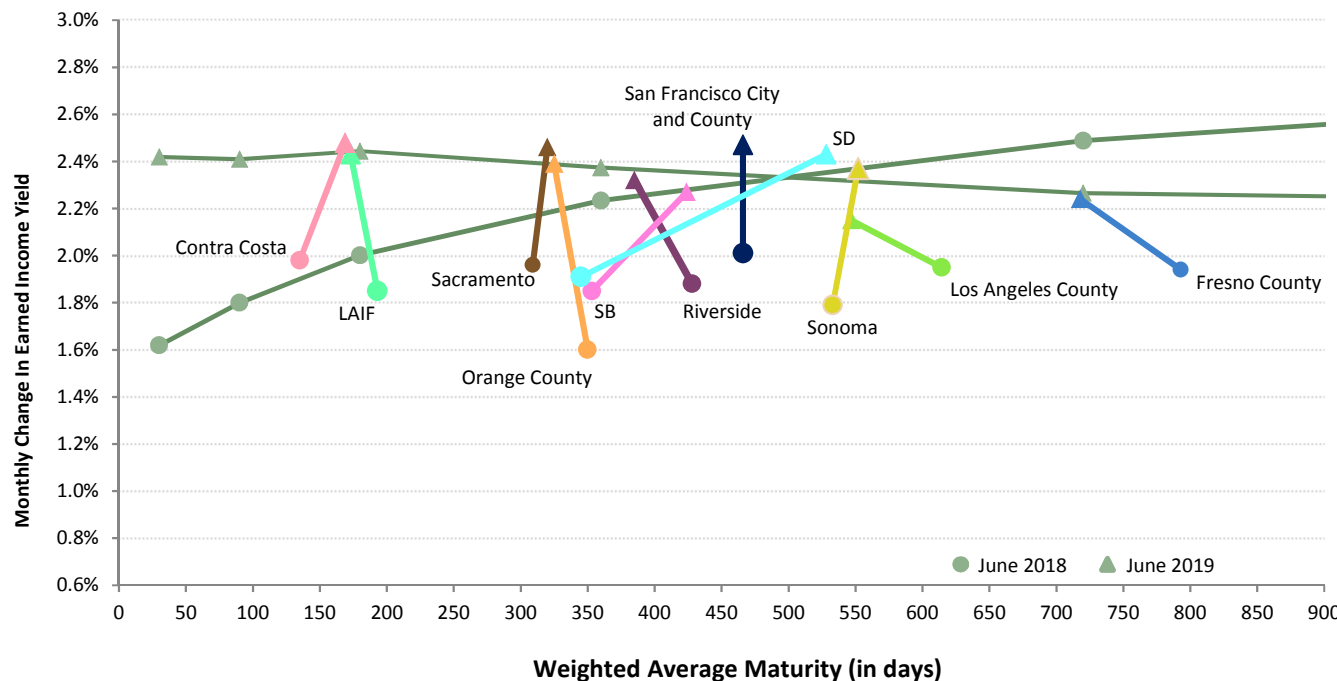


July 31, 2018



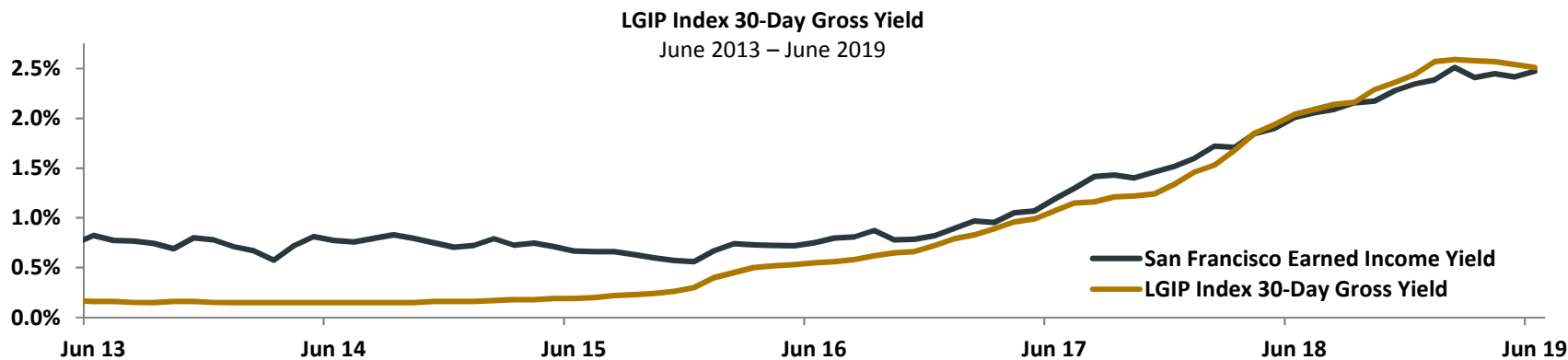
July 31, 2019

County Pooled Fund Statistics



Name of Fund	Portfolio Size* (\$ mns)
Los Angeles County	\$ 31,644.0
LAIF	24,584.7
City and County of San Francisco	11,750.0
San Diego County	10,111.7
Riverside County	7,121.2
San Bernardino County	7,086.8
Orange County (ex. Schools)	4,418.5
Sacramento County	4,236.5
Fresno County	3,830.2
Contra Costa County	3,378.2
Sonoma County	2,525.4

* as of June 2019



Sources: Bloomberg, Sacramento County as of 08/09/2019

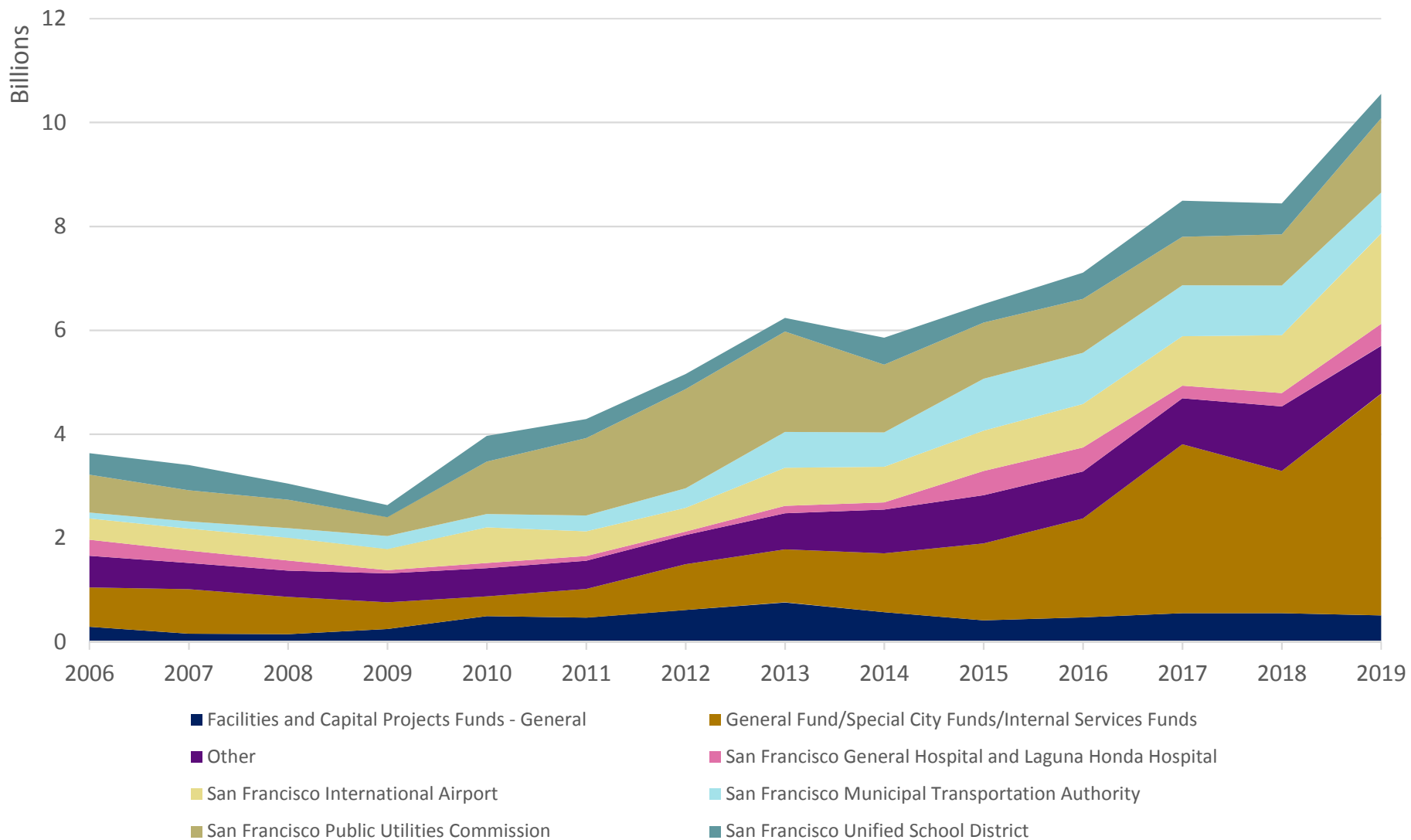
Pool Participants Breakdown

As of July 2019

Pool Participant	Fund Balance	Percent of Fund
General Fund/Special City Funds/Internal Services Funds	\$ 4,271,098,793	40.49%
San Francisco International Airport	1,740,721,112	16.50%
San Francisco Public Utilities Commission	1,434,052,905	13.59%
San Francisco Municipal Transportation Authority	786,287,811	7.45%
Facilities and Capital Projects Funds - General	508,141,321	4.82%
San Francisco Unified School District	464,492,082	4.40%
San Francisco General Hospital and Laguna Honda Hospital	420,597,555	3.99%
Other agencies (incl. Transbay Joint Powers, Trial Courts)	334,886,258	3.17%
OCII - Successor Agency – former SFRDA	281,994,746	2.67%
Port of San Francisco	192,296,555	1.82%
San Francisco Community College District	58,249,061	0.55%
San Francisco County Transportation Authority	48,497,536	0.46%
Pension and Retiree Health Care Trust Fund	7,855,433	0.07%
Totals	\$ 10,549,171,168	100.0%

Pool Participants Trends

July 31, 2006 - July 31, 2019



Source: 2006 – 2019 Ending Balance Cognos and FSP Impromptu