

# School Board of Sarasota County



## Market Update and Annual Investment Review as of September 30, 2016

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- Market Update
- Summary of Portfolio Decisions
- Core Portfolio
- Asset Allocation Chart
- Disclosures

# Current Market Themes

- Moderate U.S. economic conditions:
  - GDP growth picking up after weak first half of 2016
  - Labor market continues to strengthen
  - Inflation slowly picking up
- Treasury yields have been trending higher, but curve remains flat by historic standards

# FOMC Statement Highlights



## Highlights of FOMC Statement

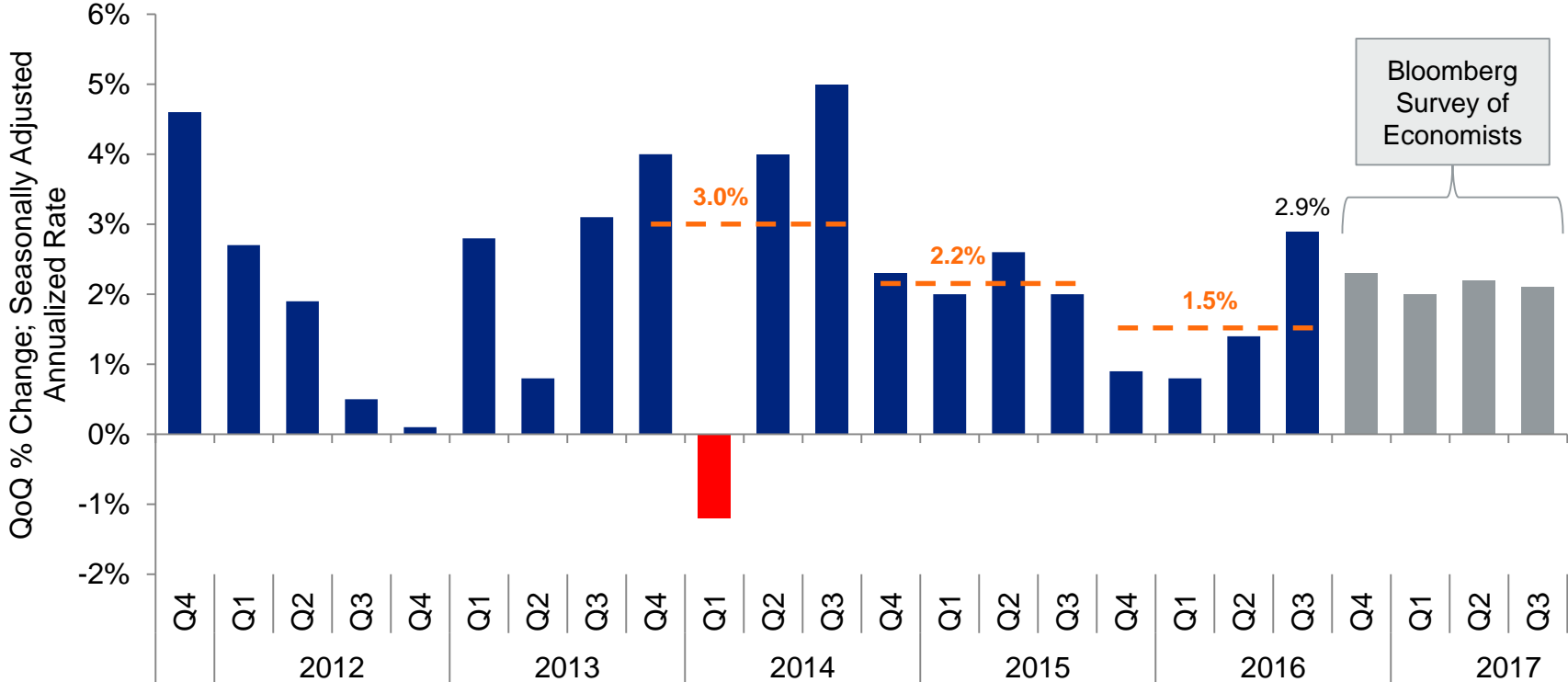
- Labor market has continued to strengthen and growth of economic activity has picked up from the modest pace
- Job gains have been solid
- Inflation has increased somewhat since earlier this year

- Against this backdrop, the Committee decided to maintain the target range for the federal funds rate at 0.25 – 0.50%.
- The Committee judges that **the case for an increase in the federal funds rate has continued to strengthen** but decided, for the time being, **to wait for some further evidence** of continued progress toward its objectives.

# U.S. Economy Bounces Back in Third Quarter

- U.S. GDP growth increased at an annual rate of 2.9% in the third quarter of 2016, the strongest reading in 2 years, according to the Bureau of Economic Analysis' initial estimate.
- Third quarter GDP reflected positive contributions from personal consumption, gross private investment, government spending, and net exports. Gross private investment has returned to positive territory, driven entirely by a large increase in private inventories, after three straight quarters of negative contributions to GDP.

U.S. Real GDP

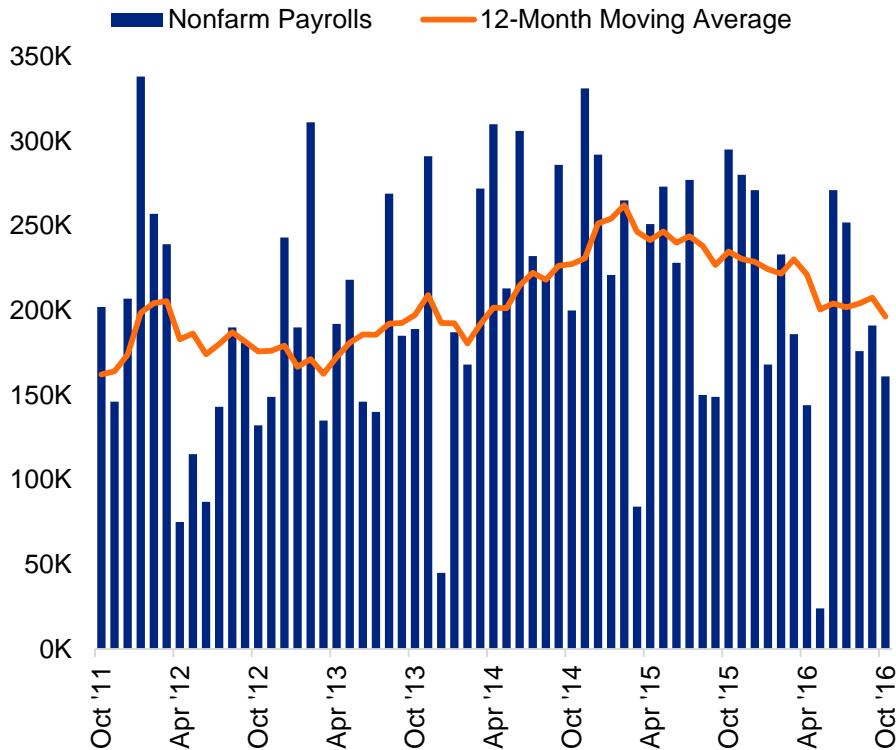


Source: Bureau of Economic Analysis; Bloomberg survey results as of 11/01/16.

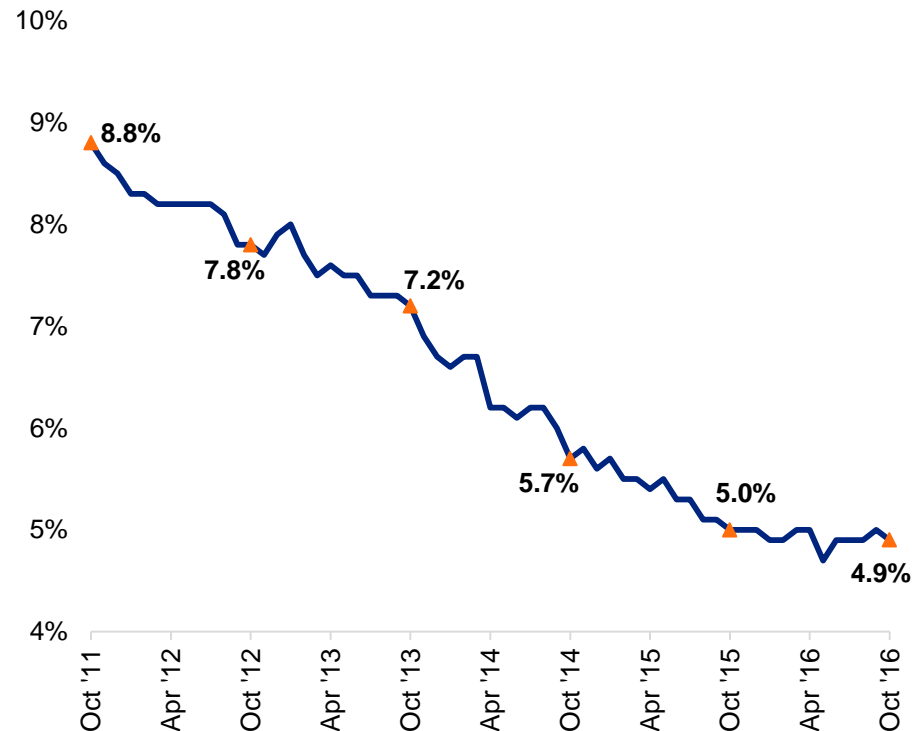
# Labor Market Strength Continues

- The U.S. labor market added 161,000 jobs in October, short of the 173,000 expectations, while the prior month's were revised up by 35,000 additional jobs.
- The unemployment rate fell to 4.9%. More notably, the U6 unemployment rate, which includes part-time and discouraged workers for economic reasons, ticked down to 9.5%, the lowest since 2008.
- Average hourly earnings surprised markets with an increase of 2.8% year-over-year, the strongest growth rate since 2009.

### Monthly Change in Nonfarm Payrolls



### Unemployment Rate

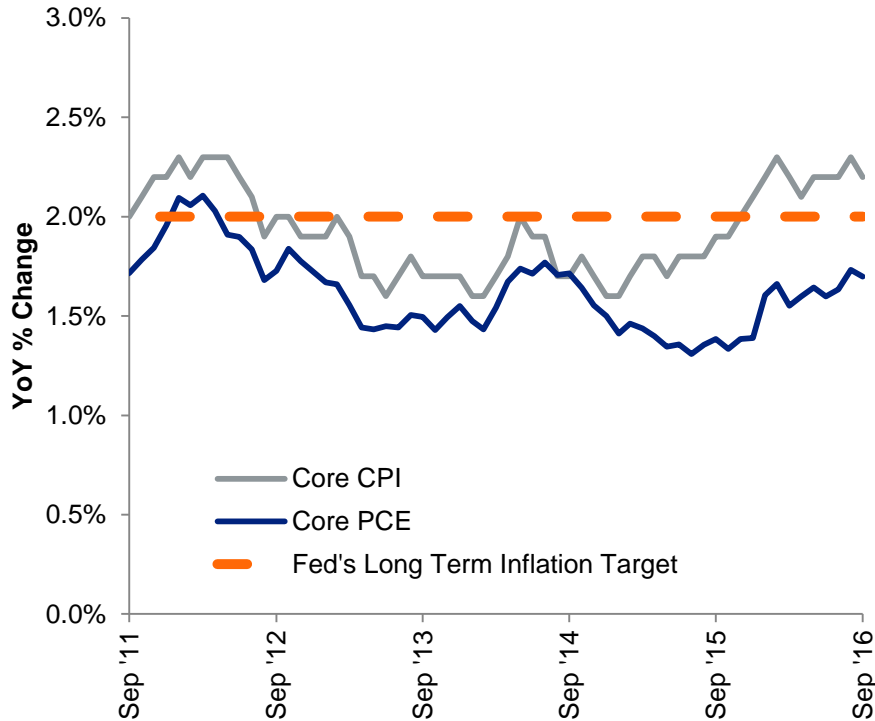


Source: Bureau of Labor Statistics, as of 11/04/16.

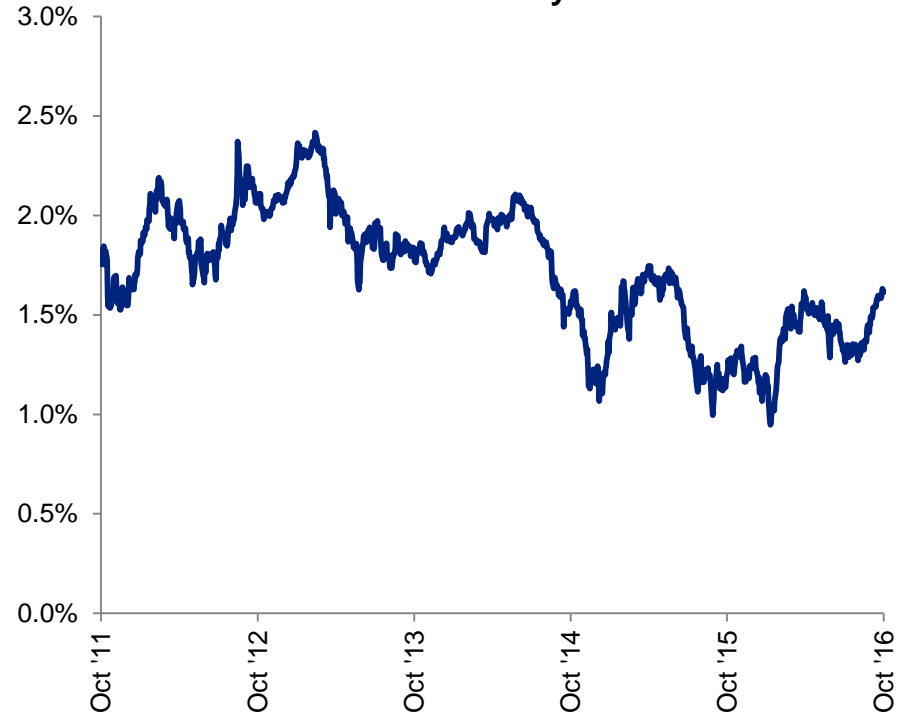
# Inflation Rising Slowly

- The core personal consumption expenditures (PCE) price index, the Fed's preferred gauge of core inflation, stayed around 1.7% year-over-year through September, continuing to modestly undershoot the Fed's 2% target.
- However, investors are expecting inflation to pick up, with market expectations for inflation over the next five years recovering back to levels in mid 2015; the attitude of policy makers also seems to have shifted in the recent months, with several regional Fed presidents becoming increasingly cognizant of signs that inflation may accelerate with the tighter labor market.

### Current Inflation Measures



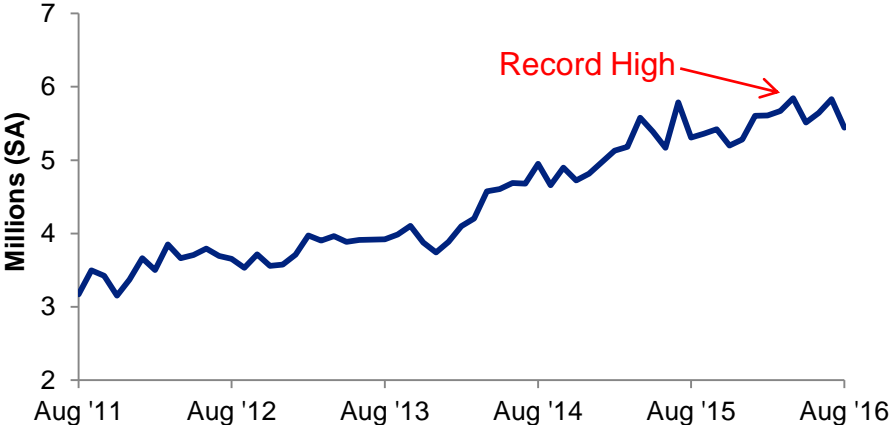
### Expectations for Average Inflation Rate over next 5 years



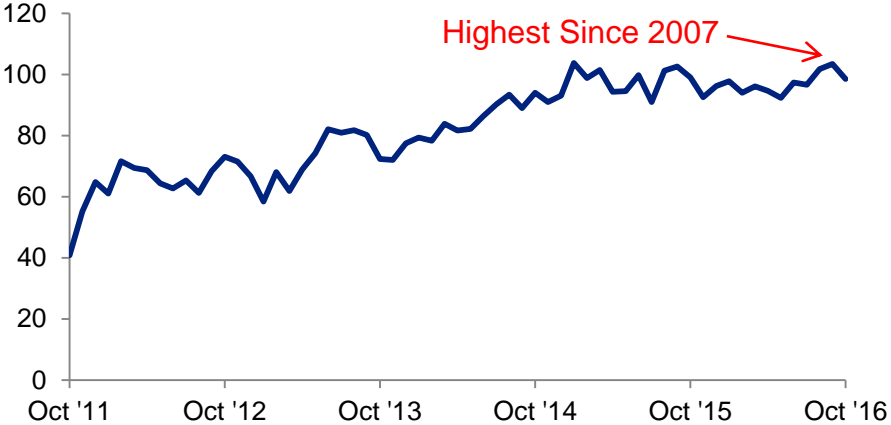
Source: Bloomberg as of 10/31/2016. Five year breakeven rate measures market expectations for inflation over next 5 years, as indicated by difference between yields on 5 year TIPS and 5 year treasury notes.

# Economic Backdrop: Areas of Strength

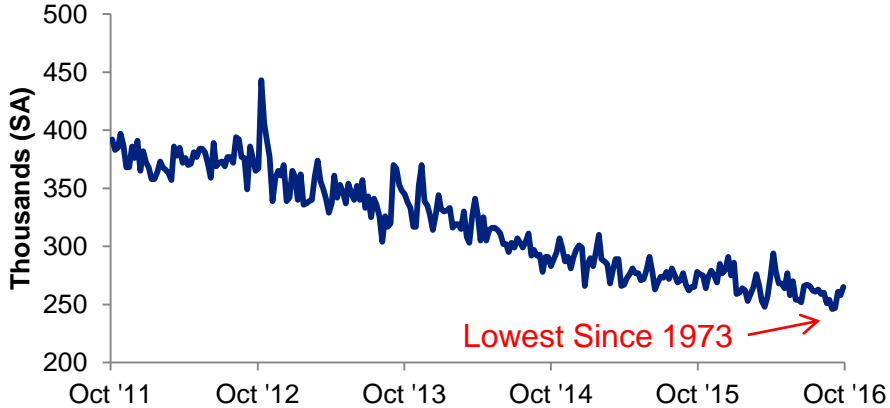
**Total US Job Openings**



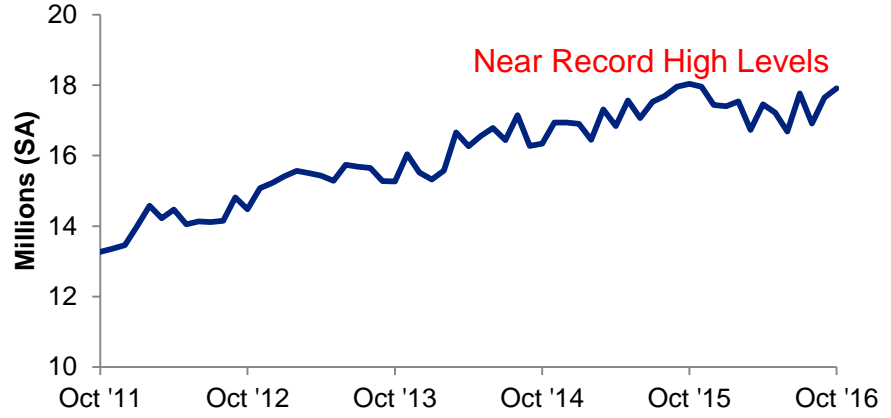
**Consumer Confidence**



**Initial Jobless Claims**



**Total US Auto Sales**

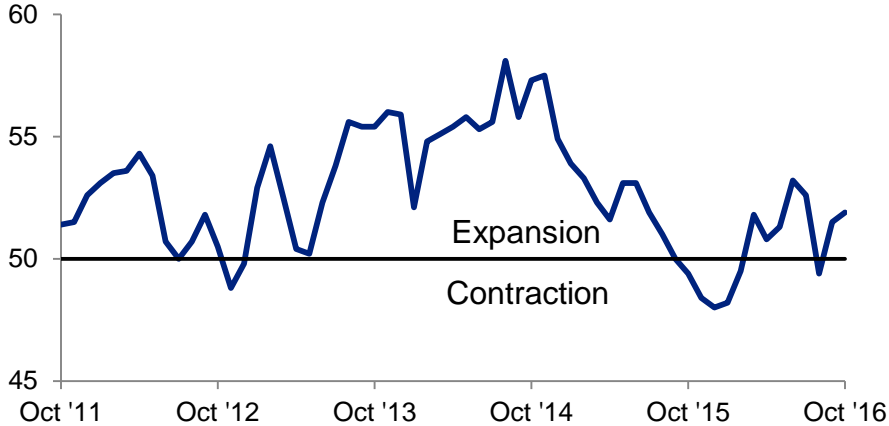


Source: Bloomberg. As of 10/31/16. SA is seasonally adjusted.



# Economic Backdrop: Areas of Weakness

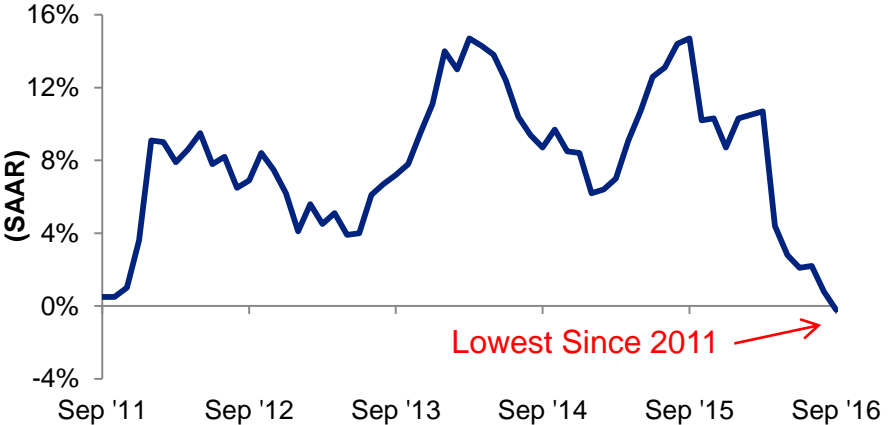
**ISM Manufacturing PMI**



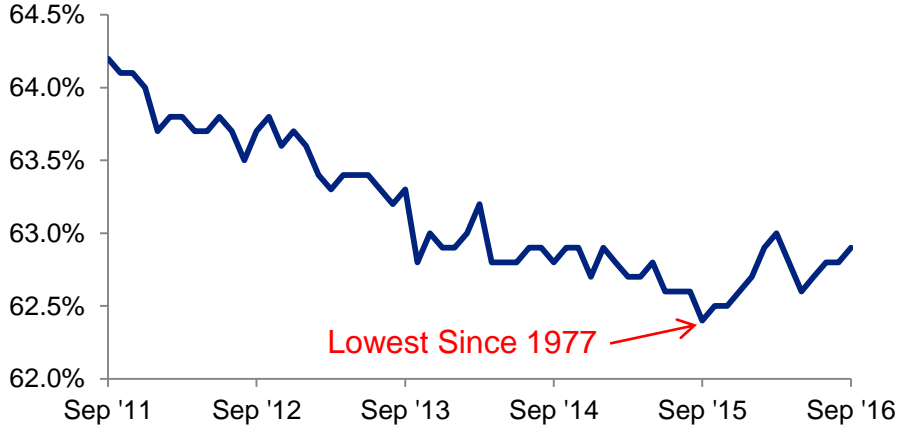
**Capacity Utilization**



**Construction Spending YoY (SAAR)**













**Labor Force Participation Rate**



Source: Bloomberg. As of 10/31/16. SAAR is seasonally adjusted annualized rate.

# Sector Preferences – November 2016

| Sector                  | PFMAM Investment Preference   | Sector Considerations   |
|-------------------------|---|---|
| MMF/LGIP                |    | <p><b>CP/CDs</b><br/>Over the past several weeks, CP/CD yields beyond three months have decreased approximately 10 basis points as Prime money market funds have begun to redeploy cash post 2a7 reform. Even at current levels and the FOMC in play for December, these short-term credit instruments continue to offer relative value vs. government securities.</p>  |
| Commercial Paper/CDs    |    | <p><b>Treasuries</b><br/>Yields have moved generally higher post the Brexit-induced rally. 1-5 year maturities offer value near the upper end of recent trading ranges, but the yield curve remains relatively flat, as a result of an extended period of low inflation and a lower expected ceiling for interest rates from a gradual Fed.</p>   |
| Treasury: T-Bill        |    | <p><b>Federal Agencies</b><br/>Federal Agency spreads continued to tighten, as light supply, higher rates, and strong investor demand have kept a lid on spreads. This tighter move has erased most of the value found in the agency sector earlier in the year. As a result, rather than adding agencies, there may be opportunities to sell them and purchase US Treasuries of similar maturity at essentially the same yields. There may be value in new issues, if they come with a yield concession.</p> |
| Treasury: T-Note        |    | <p><b>Corporates</b><br/>We are growing increasingly cautious with the corporate sector. Spreads remain quite narrow heading into the fall, with the potential for volatility to pick up due to events like the U.S. election and an FOMC interest rate hike. Increased volatility may widen spreads and affect corporate returns in the short run.</p>   |
| Agency: <= 3 years      |    | <p><b>Municipals</b><br/>Taxable municipals offer fair value compared to other spread products but remain deal specific with limited availability of inventory.</p>   |
| Agency: > 3 Years       |  | <p><b>ABS</b><br/>Due to the tightening over the last month or so, ABS spreads versus Treasury securities are around fair value relative to historic levels. Going into year end, the new issue market is expected to be relatively quiet, but still offers the most attractive avenue to add exposure. Collateral performance remains within rating agency expectations.</p>   |
| Corporates: Financials  |  | <p><b>MBS</b><br/>Given the recent tightening on both an OAS and nominal basis, the MBS sector is now trading at the tighter end of its recent range. While seasonal supply is starting to slow, the sector will likely need the Treasury market to sell off in order to generate positive excess returns over the near term.</p>   |
| Corporates: Industrials |  |   |
| Municipal Bonds         |  |   |
| Asset-Backed            |  |   |
| Mortgage Backed         |  |   |

Source: PFMAM, as of 10/31/16. 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.

# Sarasota Schools Portfolio Decisions

Results through 9/30/2016

| Portfolio Change   | Comparison Return (9/30/2016)       | Since Inception Return (9/30/2016)  | Difference (%) | Estimated Difference (\$)  |
|--|-------------------------------------|-------------------------------------|----------------|----------------------------|
| Decision to Invest Longer Florida Prime vs ML 1-3 Yr US Treasury Index | Florida Prime (0.32%)               | ML 1-3 Yr US Treasury Index (0.94%) | 0.62%          | (Annualized) \$273k        |
| Convert Core Portfolio to Active Management (March 2014)               | ML 1-3 Yr US Treasury Index (0.94%) | Core Portfolio (1.09%)              | 0.15%          | (Annualized) \$66k         |
| Short Term Portfolio Purchase Commercial Paper (March 2016)            |                                     |                                     |                | Income Pickup on CP: \$27k |

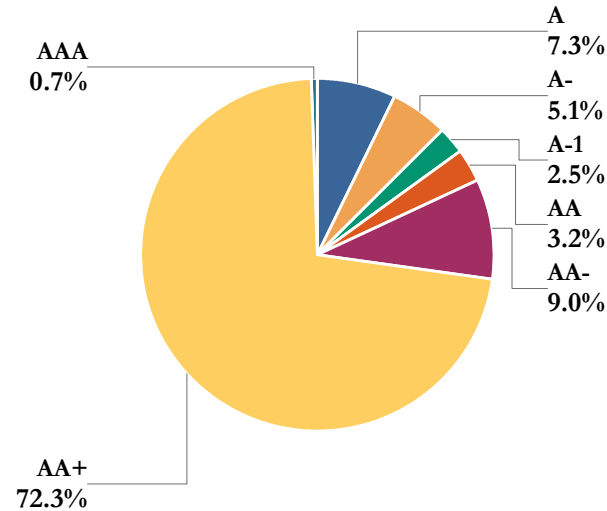
Data as of September 30, 2016. Since inception date for Core Portfolio was March 31, 2014. Florida Prime (SBA) rate is the average Net Participant Yield as reported on rom [www.sbafla.com/prime](http://www.sbafla.com/prime). Difference (\$) assumes portfolio market value of \$44,084,750 for Core Portfolio and \$40 million for the Short Term Portfolio. The Short Term Portfolio Income Pickup was determined by comparing actual realized gains from the commercial paper versus the estimated monthly income from the Florida Prime based on the original cost of the portfolio and the monthly participant yield from March 2016 – September 2016 .

**Portfolio Statistics**

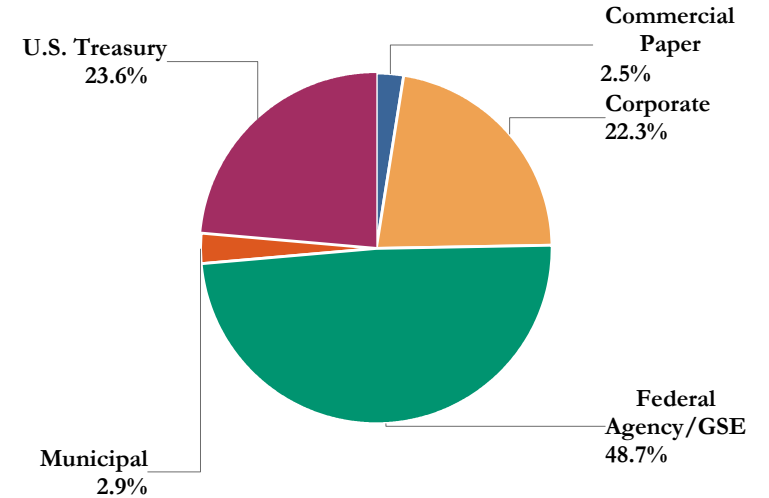
As of September 30, 2016

|                        |            |
|------------------------|------------|
| Par Value:             | 43,645,000 |
| Total Market Value:    | 44,084,750 |
| Security Market Value: | 43,761,757 |
| Accrued Interest:      | 96,898     |
| Cash:                  | 226,095    |
| PFM                    | -          |
| Amortized Cost:        | 43,655,034 |
| Yield at Market:       | 0.95%      |
| Yield at Cost:         | 1.08%      |
| Effective Duration:    | 1.83 Years |
| Duration to Worst:     | 1.84 Years |
| Average Maturity:      | 1.87 Years |
| Average Credit: **     | AA         |

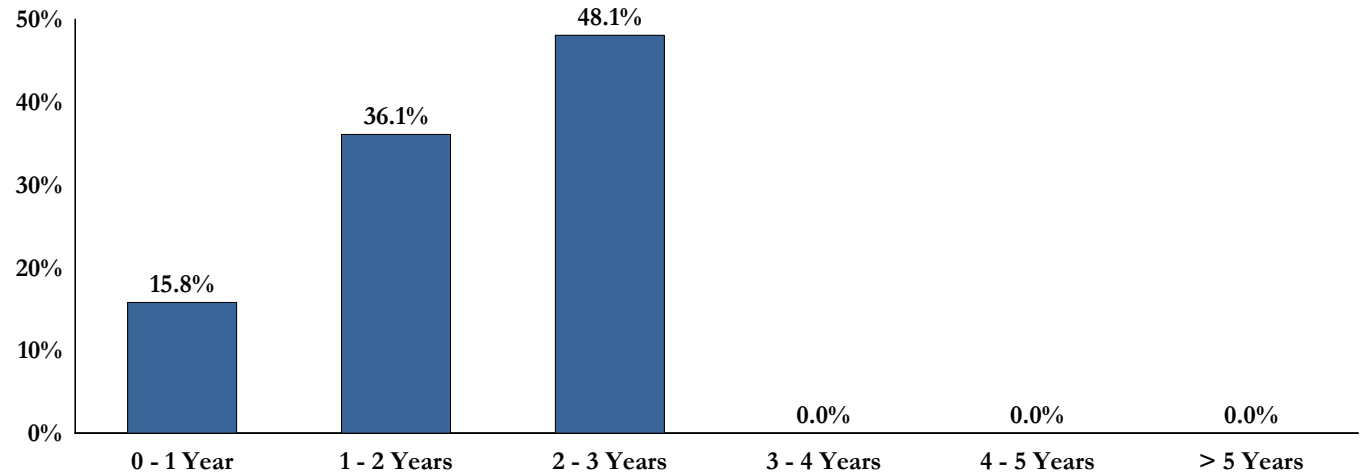
**Credit Quality (S&P Ratings)**



**Sector Allocation**



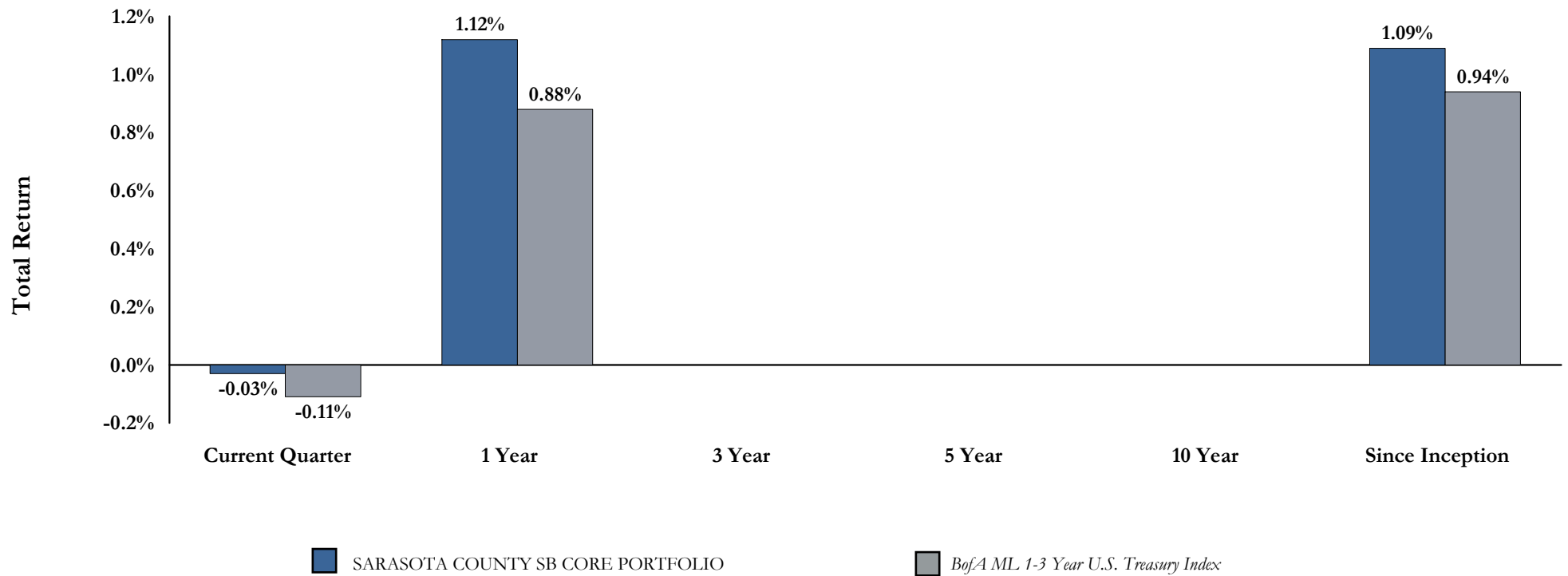
**Maturity Distribution**



\*\* 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)**

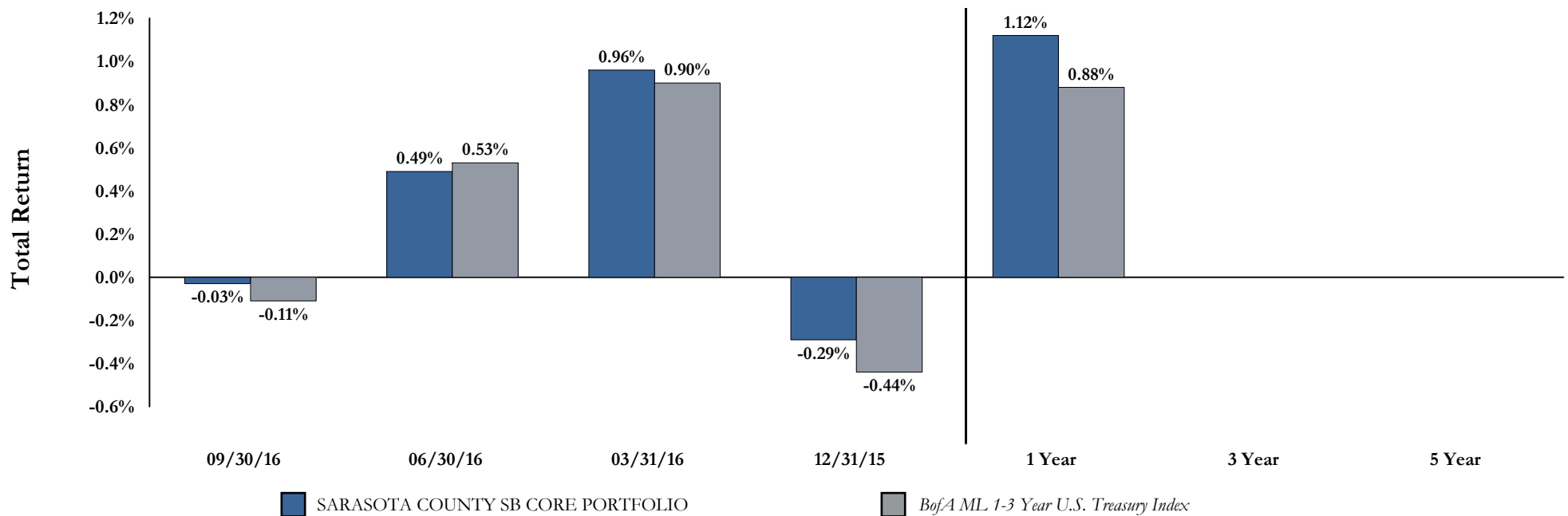
| Portfolio/Benchmark                         | Effective Duration | Current Quarter | 1 Year | Annualized Return |        |         | Since Inception (03/31/14) ** |
|---|--------------------|-----------------|--------|-------------------|--------|---------|-------------------------------|
|   |                    |                 |        | 3 Year            | 5 Year | 10 Year |                               |
| <b>SARASOTA COUNTY SB CORE PORTFOLIO</b>    | 1.83               | -0.03%          | 1.12%  | -                 | -      | -       | 1.09%                         |
| <i>BofA ML 1-3 Year U.S. Treasury Index</i> | 1.83               | -0.11%          | 0.88%  | -                 | -      | -       | 0.94%                         |
| <b>Difference</b>                           |                    | 0.08%           | 0.24%  | -                 | -      | -       | 0.15%                         |



Portfolio performance is gross of fees unless otherwise indicated. \*\*Since Inception performance is not shown for periods less than one year.

Portfolio Performance (Total Return)

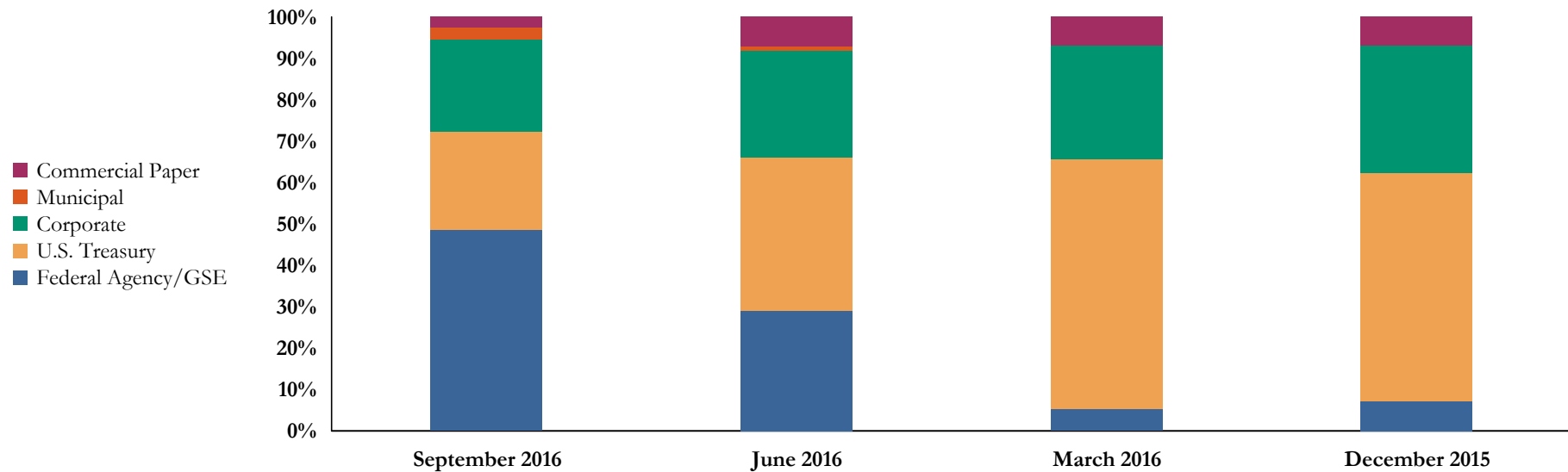
| Portfolio/Benchmark                         | Effective Duration | Quarter Ended |          |          |          | 1 Year | Annualized Return |        |
|---|--------------------|---------------|----------|----------|----------|--------|-------------------|--------|
|   |                    | 09/30/16      | 06/30/16 | 03/31/16 | 12/31/15 |        | 3 Year            | 5 Year |
| <b>SARASOTA COUNTY SB CORE PORTFOLIO</b>    | 1.83               | -0.03%        | 0.49%    | 0.96%    | -0.29%   | 1.12%  | -                 | -      |
| <i>Net of Fees **</i>                       | -                  | -0.05%        | 0.47%    | 0.94%    | -0.31%   | 1.03%  | -                 | -      |
| <b>BofA ML 1-3 Year U.S. Treasury Index</b> | 1.83               | -0.11%        | 0.53%    | 0.90%    | -0.44%   | 0.88%  | -                 | -      |
| <b>Difference (Gross)</b>                   |                    | 0.08%         | -0.04%   | 0.06%    | 0.15%    | 0.24%  | -                 | -      |
| <b>Difference (Net)</b>                     |                    | 0.06%         | -0.06%   | 0.04%    | 0.13%    | 0.15%  | -                 | -      |



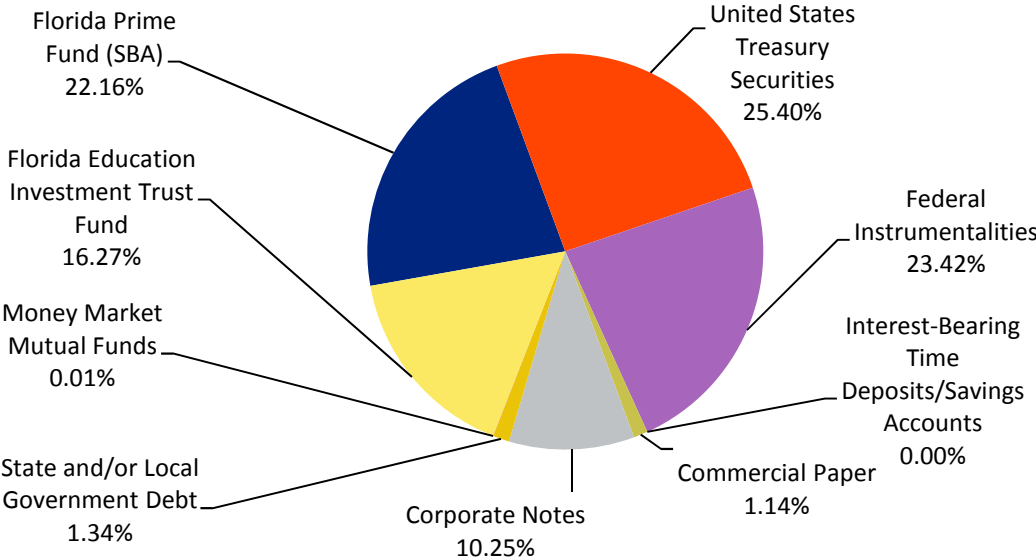
Portfolio performance is gross of fees unless otherwise indicated. \*\* Fees were calculated based on average assets during the period at the contractual rate.

### Sector Allocation

| Sector             | September 30, 2016 |               | June 30, 2016 |               | March 31, 2016 |               | December 31, 2015 |               |
|--------------------|--------------------|---------------|---------------|---------------|----------------|---------------|-------------------|---------------|
|                    | MV (\$MM)          | % of Total    | MV (\$MM)     | % of Total    | MV (\$MM)      | % of Total    | MV (\$MM)         | % of Total    |
| Federal Agency/GSE | 21.3               | 48.7%         | 12.7          | 29.0%         | 2.4            | 5.4%          | 3.1               | 7.1%          |
| U.S. Treasury      | 10.3               | 23.6%         | 16.2          | 37.0%         | 26.3           | 60.3%         | 23.9              | 55.3%         |
| Corporate          | 9.8                | 22.3%         | 11.4          | 25.9%         | 12.0           | 27.4%         | 13.3              | 30.7%         |
| Municipal          | 1.3                | 2.9%          | 0.4           | 1.0%          | 0.0            | 0.0%          | 0.0               | 0.0%          |
| Commercial Paper   | 1.1                | 2.5%          | 3.1           | 7.1%          | 3.0            | 6.9%          | 3.0               | 6.9%          |
| <b>Total</b>       | <b>\$43.8</b>      | <b>100.0%</b> | <b>\$43.9</b> | <b>100.0%</b> | <b>\$43.7</b>  | <b>100.0%</b> | <b>\$43.3</b>     | <b>100.0%</b> |



Detail may not add to total due to rounding.



| Security Type <sup>1,2</sup>                    | Amortized Cost (Includes Interest) | Allocation Percentage | Notes | Permitted by Policy | In Compliance |
|---|------------------------------------|-----------------------|-------|---------------------|---------------|
| Florida Prime Fund (SBA)                        | 21,147,677.00                      | 22.16%                | 3     | 75%                 | YES           |
| United States Treasury Securities               | 24,247,930.73                      | 25.40%                |       | 100%                | YES           |
| United States Government Agency Securities      | -                                  | 0.00%                 |       | 50%                 | YES           |
| Federal Instrumentalities                       | 22,351,531.75                      | 23.42%                | 4     | 80%                 | YES           |
| Mortgage-Backed Securities                      | -                                  | 0.00%                 | 4     | 20%                 | YES           |
| Interest-Bearing Time Deposits/Savings Accounts | 1,111.55                           | 0.00%                 | 3     | 50%                 | YES           |
| Repurchase Agreements                           | -                                  | 0.00%                 |       | 50%                 | YES           |
| Commercial Paper                                | 1,092,124.91                       | 1.14%                 |       | 25%                 | YES           |
| Corporate Notes                                 | 9,781,378.81                       | 10.25%                |       | 25%                 | YES           |
| Bankers' Acceptances                            | -                                  | 0.00%                 |       | 35%                 | YES           |
| State and/or Local Government Debt              | 1,283,556.74                       | 1.34%                 |       | 20%                 | YES           |
| Money Market Mutual Funds                       | 12,737.30                          | 0.01%                 | 3     | 50%                 | YES           |
| Florida Education Investment Trust Fund         | 15,529,253.98                      | 16.27%                |       | 25%                 | YES           |

Notes:

1. End of month trade-date amortized cost of portfolio holdings, including accrued interest.
2. All funds. Includes bond proceeds.
3. Managed by the School Board.
4. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 80%. The combined total as of September 30, 2016 is 23.42%.



| <b>Individual Issuer Breakdown</b>                   | <b>Amortized Cost<br/>(Includes<br/>Interest)</b> | <b>Allocation<br/>Percentage</b> | <b>Notes</b> | <b>Permitted<br/>by Policy</b> | <b>In<br/>Compliance</b> |
|--|---|----------------------------------|--------------|--------------------------------|--------------------------|
| Government National Mortgage Association (GNMA)      | -   | 0.00%                            |              | <b>25%</b>                     | YES                      |
| Federal Farm Credit Bank (FFCB)                      | -   | 0.00%                            |              | <b>40%</b>                     | YES                      |
| Federal Home Loan Bank (FHLB)                        | 9,577,509.73                                      | 10.03%                           |              | <b>40%</b>                     | YES                      |
| Federal National Mortgage Association (FNMA)         | 9,651,779.55                                      | 10.11%                           |              | <b>40%</b>                     | YES                      |
| Federal Home Loan Mortgage Corporation (FHLMC)       | 3,122,242.47                                      | 3.27%                            |              | <b>40%</b>                     | YES                      |
| Regional Transportation Authority Municipal Bonds    | 440,920.62  | 0.46%                            |              | <b>10%</b>                     | YES                      |
| State of Connecticut Municipal Bonds                 | 842,636.12  | 0.88%                            |              | <b>10%</b>                     | YES                      |
| American Express Company Corporate Notes             | 1,053,219.60                                      | 1.10%                            |              | <b>5%</b>                      | YES                      |
| Boeing Company Corporate Notes                       | 580,875.53  | 0.61%                            |              | <b>5%</b>                      | YES                      |
| Caterpillar, Inc. Corporate Notes                    | 550,739.22  | 0.58%                            |              | <b>5%</b>                      | YES                      |
| Cisco Systems, Inc. Corporate Notes                  | 864,093.86  | 0.91%                            |              | <b>5%</b>                      | YES                      |
| Deere & Company Corporate Notes                      | 802,636.51  | 0.84%                            |              | <b>5%</b>                      | YES                      |
| General Electric Capital Corporation Corporate Notes | 577,697.13  | 0.61%                            |              | <b>5%</b>                      | YES                      |
| IBM Corporation Corporate Notes                      | 1,000,335.53                                      | 1.05%                            |              | <b>5%</b>                      | YES                      |
| JP Morgan Chase & Company Corporate Notes            | 1,191,537.54                                      | 1.25%                            |              | <b>5%</b>                      | YES                      |
| Microsoft Corporation Corporate Notes                | 290,185.39  | 0.30%                            |              | <b>5%</b>                      | YES                      |
| Pfizer, Inc. Corporate Notes                         | 963,811.84  | 1.01%                            |              | <b>5%</b>                      | YES                      |
| Toyota Motor Corporation Corporate Notes             | 651,851.44  | 0.68%                            |              | <b>5%</b>                      | YES                      |
| Wells Fargo & Company Corporate Notes                | 1,254,395.22                                      | 1.31%                            |              | <b>5%</b>                      | YES                      |
| Rabobank Nederland Commercial Paper                  | 1,092,124.91                                      | 1.14%                            |              | <b>15%</b>                     | YES                      |
| Wells Fargo Advantage Heritage Money Market Fund     | 12,737.30   | 0.01%                            |              | <b>25%</b>                     | YES                      |
| Wells Fargo Money Market Account                     | 424.02  | 0.00%                            |              | <b>25%</b>                     | YES                      |
| UBS Bank Cash  | 687.53  | 0.00%                            |              | <b>25%</b>                     | YES                      |

# Disclosures

*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 guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.*