



Ironhouse Sanitary District BOARD OF DIRECTORS *STAFF REPORT*

DATE: February 4, 2020
TO: Members of the Board of Directors
FROM: Michael Welty, CPA
SUBJECT: Investment Portfolio Summary and Discussion

Summary and Discussion:

As of December 31, 2019, Ironhouse Sanitary District (the District) maintains total cash and investments of \$26,804,457. At December 31, 2019, a summary of the portfolio is as follows:

Bank Accounts - \$1,665,686
LAIF - \$11,461,666
CalTrust - \$5,953,364
Wells Fargo Securities - \$7,723,741

For the six months ended December 31, 2019, interest and dividend income is \$183,989 compared to an annual budget of \$275,000 (66.9% 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: *February 4, 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 December 31, 2019, for FY19/20, the District has recognized unrealized gains of \$54,286. In aggregate, the District's investment portfolio has an unrealized loss of \$999 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 December 31, 2019, the realized loss would have been \$999. 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 December 31, 2019

Bank Accounts	<u>Balance</u>	<u>Yield</u>
Wells Fargo Checking	1,603,389	0.00%
BAC Commerce Savings	62,297	0.03%
	<u>1,665,686</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	11,461,666	2.04%	0	
CalTrust Short-Term	1,697,091	1.82%	3,907	AAf/S1+
CalTrust Medium Term	4,256,273	1.71%	(1,687)	A+/S1
	<u>17,415,030</u>		<u>2,220</u>	

Grand Total Summary	<u>Balance</u>	<u>Unrealized Gain/(Loss)</u>	
Cash/Investment Type			
Banks	1,665,686	0	
Cash Investment Funds	17,415,030	2,220	
Wells Fargo Securities	7,723,741	(3,218.95)	See Page 2 for Detail
	<u>26,804,457</u>	<u>(999)</u>	

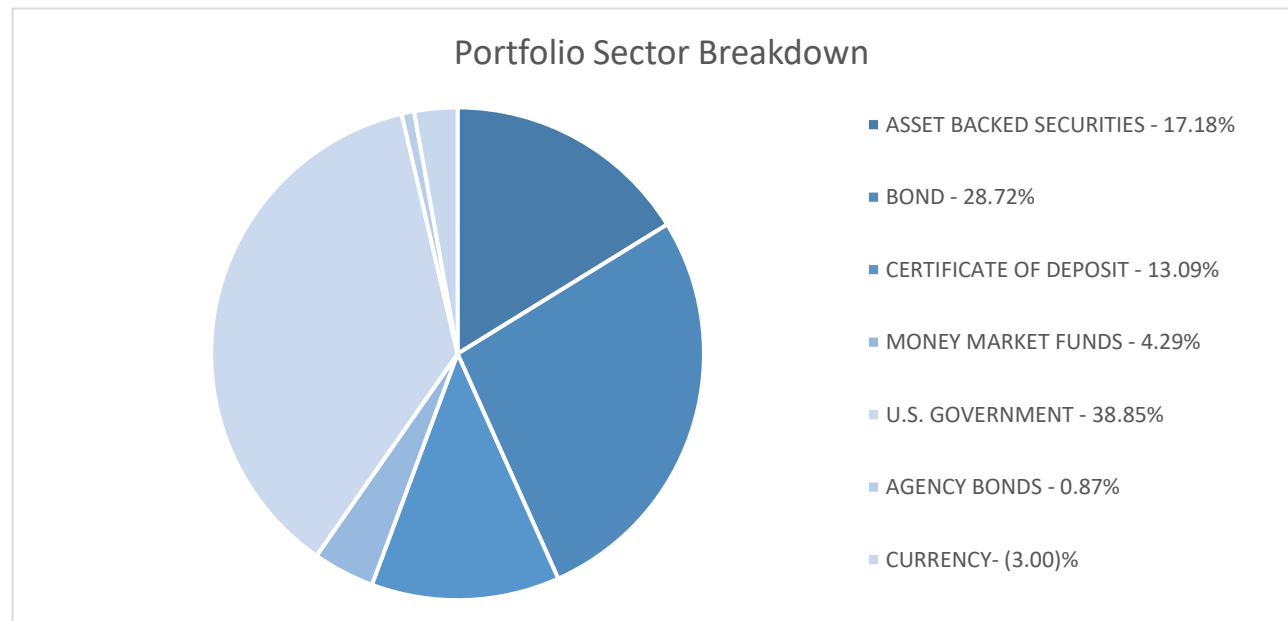
Wells Fargo Marketable Securities

	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	501,058	(1,577)	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	502,927	(954)	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	507,713	63	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	513,150	(1,027)	AA
				<u>2,000,000</u>	<u>110,105</u>	<u>12,169</u>	<u>2,122,274</u>				<u>2,028,343</u>	<u>2,024,848</u>	<u>(3,495)</u>	
Certificates of Deposits														
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	250,289	289	
Beal Bank	12/04/19	12/11/19	04/08/20	250,000	0	0	250,000	1.65%	1.65%	At Maturity	250,000	249,994	(6)	
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	249,725	(275)	
Beneficial Bank	05/12/16	04/27/16	04/27/20	250,000	0	171	250,171	1.25%	1.25%	Monthly	250,000	249,921	(250)	
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	100,069	69	
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	250,789	789	
Newbury Savings	04/12/16	07/27/16	08/27/20	250,000	0	0	250,000	1.35%	1.35%	Monthly	250,000	250,028	28	
Texas Capital Bank	12/04/19	12/11/19	11/12/20	250,000	0	0	250,000	1.70%	1.70%	At Maturity	250,000	250,097	97	
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	248,645	(1,356)	
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	249,596	(405)	
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	249,592	(408)	
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	250,237	237	
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	249,267	(733)	
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	248,942	(1,058)	
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	248,943	(1,057)	
Security Bank	04/12/16	04/29/16	04/29/21	250,000	0	0	250,000	1.40%	1.40%	Monthly	250,000	250,603	603	
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	250,570	570	
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	250,601	601	
Comenity Bank	05/12/16	05/23/16	05/24/21	250,000	0	0	250,000	1.50%	1.50%	Monthly	250,000	249,721	(279)	
Merrick Bank	05/12/16	05/27/16	05/27/21	250,000	0	0	250,000	1.45%	1.45%	Monthly	250,000	250,101	101	
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	198,299	2,299	
State Bank of India	12/04/19	12/13/19	12/31/21	240,000	0	0	240,000	1.75%	1.75%	Jun/Dec	240,000	240,190	190	
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	150,231	231	
				<u>5,436,000</u>	<u>0</u>	<u>171</u>	<u>5,436,171</u>				<u>5,436,000</u>	<u>5,436,447</u>	<u>276</u>	
Mutual Funds														
Wells Fargo MM Fund	Various			262,445	0	0	262,445	1.48%	1.48%	Monthly	262,445	262,445	0	
Total Wells Fargo Securities				<u>7,698,445</u>	<u>110,105</u>	<u>12,341</u>	<u>7,820,891</u>				<u>7,726,789</u>	<u>7,723,741</u>	<u>(3,219)</u>	



	CalTRUST Short Term	LAIF		CalTRUST Short Term Net Total Return	CalTRUST Short Term Yield	LAIF Yield
Net Assets	\$1,154,865,691.34	N/A	One Month	0.17%	0.16%	0.17%
NAV per Share	\$10.05	N/A	Three Month	0.61%	0.51%	0.55%
30 day SEC Yield	1.82%	2.04%	Six Month	1.20%	1.11%	1.15%
Period Net Total Return	0.17%	0.17%	One Year*	2.45%	2.49%	2.37%
Effective Duration	0.44 yrs	N/A	Two Year*	2.23%	2.20%	2.07%
Average Maturity	0.82 yrs	0.61 yrs	Three Year*	1.86%	1.83%	1.70%
Weighted Average Life	0.70 yrs	0.51 yrs	Five Year*	1.36%	1.33%	1.19%
			Ten Year*	0.91%	0.90%	0.78%
			Since Inception*	1.79%	1.76%	1.68%

*Annualized



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	\$576,872,360.54	N/A	One Month	0.00%	0.17%	0.24%
NAV per Share	\$10.09	N/A	Three Month	0.52%	0.52%	0.61%
30 Day SEC Yield	1.71%	N/A	Six Month	1.17%	1.07%	1.31%
Period Net Total Return	0.18%	0.24%	One Year*	3.87%	2.24%	4.07%
Effective Duration	1.75 yrs	1.85 yrs	Two Year*	2.68%	2.12%	2.84%
Average Maturity	1.99 yrs	1.91 yrs	Three Year*	2.03%	1.87%	2.18%
Weighted Average Life	1.83 yrs	N/A	Five Year*	1.54%	1.49%	1.69%
			Ten Year*	1.35%	1.25%	1.58%
			Since Inception*	2.12%	2.04%	2.49%

*Annualized

Portfolio Sector Breakdown

- AGENCY BONDS - 2.00%
- ASSET BACKED SECURITIES - 18.92%
- BOND - 25.07%
- MONEY MARKET FUNDS - 0.23%
- MUNICIPAL BOND - 2.74%
- U.S. GOVERNMENT - 50.63%
- PREFERRED STOCK - 0.41%

Rated AA-f by S&P Global Ratings