



# Ironhouse Sanitary District BOARD OF DIRECTORS *STAFF REPORT*

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**DATE:** April 7, 2020  
**TO:** Members of the Board of Directors  
**FROM:** Michael Welty, CPA  
**SUBJECT:** Investment Portfolio Summary and Discussion

## **Summary and Discussion:**

As of February 29, 2020, Ironhouse Sanitary District (the District) maintains total cash and investments of \$25,295,115. At February 29, 2020, a summary of the portfolio is as follows:

Bank Accounts - \$767,654  
LAIF - \$10,758,164  
CalTrust - \$6,017,488  
Wells Fargo Securities - \$7,751,809

For the eight months ended February 29, 2020, interest and dividend income is \$261,936 compared to an annual budget of \$275,000 (95.2% 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**

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## 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 February 29, 2020, for FY19/20, the District has recognized unrealized gains of \$115,029. In aggregate, the District's investment portfolio has an unrealized gain of \$59,744 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 February 29, 2020, the realized gain would have been \$59,744. However, since the District intends to hold securities within the portfolio until maturity, a realized gain or 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 February 29, 2020

<b>Bank Accounts</b>	<u>Balance</u>	<u>Yield</u>
Wells Fargo Checking	705,357	0.00%
BAC Commerce Savings	62,297	0.03%
	<u>767,654</u>	

<b>Cash Investment Funds</b>			Unrealized	Standard
Description	Balance	Yield	Gain/(Loss)	Poor's Credit Rating
LAIF Ultra Short-Term	10,758,164	1.97%	0	
CalTrust Short-Term	1,705,563	1.62%	7,290	AAf/S1+
CalTrust Medium Term	4,311,925	1.45%	40,539	A+/S1
	<u>16,775,652</u>		<u>47,828.49</u>	

<b>Grand Total Summary</b>		Unrealized	
Cash/Investment Type	Balance	Gain/(Loss)	
Banks	767,654	0	
Cash Investment Funds	16,775,652	47,828	
Wells Fargo Securities	7,751,809	11,915	See Page 2 for Detail
	<u>25,295,115</u>	<u>59,744</u>	

**Wells Fargo Marketable Securities**

	Trade	Issue	Maturity	Par	Purchase	Purchase	Total	Coupon	Yield to	Interest	Adjusted	Current	Unrealized
<b>Bonds</b>	Date	Date	Date	Value	Premium	Accrued Interest	Purchase Cost	Rate	Maturity	Dates	Cost Basis	Market Value	Gain/(Loss)
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	501,554	(1,081)
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	502,356	503,305	950
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	508,678	1,028
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	513,983	(194)
				<u>2,000,000</u>	<u>110,105</u>	<u>12,169</u>	<u>2,122,274</u>				<u>2,026,818</u>	<u>2,027,520</u>	<u>702</u>
<b>Certificates of Deposits</b>													
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	250,037	37
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	249,924	(76)
Beneficial Bank	05/12/16	04/27/16	04/27/20	250,000	0	171	250,171	1.25%	1.25%	Monthly	250,000	250,024	(147)
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	100,070	70
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	250,574	574
Newbury Savings	04/12/16	07/27/16	08/27/20	250,000	0	0	250,000	1.35%	1.35%	Monthly	250,000	250,038	38
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	250,421	421
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	249,441	(559)
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	250,007	7
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	250,281	281
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	250,848	848
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	249,956	(44)
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	249,715	(285)
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	249,716	(284)
Security Bank	04/12/16	04/29/16	04/29/21	250,000	0	0	250,000	1.40%	1.40%	Monthly	250,000	251,191	1,191
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	251,162	1,162
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	251,188	1,188
Comenity Bank	05/12/16	05/23/16	05/24/21	250,000	0	0	250,000	1.50%	1.50%	Monthly	250,000	250,459	459
Merrick Bank	05/12/16	05/27/16	05/27/21	250,000	0	0	250,000	1.45%	1.45%	Monthly	250,000	250,803	803
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	198,633	2,633
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	241,269	1,269
Wells Fargo Bank	01/07/20	01/17/20	01/18/22	250,000	0	0	250,000	1.80%	1.80%	Monthly	250,000	251,627	1,627
				<u>5,286,000</u>	<u>0</u>	<u>171</u>	<u>5,286,171</u>				<u>5,286,000</u>	<u>5,297,385</u>	<u>11,213</u>
<b>Mutual Funds</b>													
Wells Fargo MM Fund	Various			426,903	0	0	426,903	1.46%	1.46%	Monthly	426,903	426,903	0
<b>Total Wells Fargo Securities</b>				<u>7,712,903</u>	<u>110,105</u>	<u>12,341</u>	<u>7,835,349</u>				<u>7,739,722</u>	<u>7,751,809</u>	<u>11,915</u>



	CalTRUST Short Term	LAIF		CalTRUST Short Term Net Total Return	CalTRUST Short Term Yield	LAIF Yield
Net Assets	\$1,232,845,375.13	N/A	One Month	0.34%	0.14%	0.15%
NAV per Share	\$10.07	N/A	Three Month	0.67%	0.47%	0.49%
30 day SEC Yield	1.62%	1.97%	Six Month	1.29%	1.00%	1.04%
Period Net Total Return	0.34%	0.15%	One Year*	2.80%	2.33%	2.28%
Effective Duration	0.60 yrs	N/A	Two Year*	2.54%	2.26%	2.16%
Average Maturity	0.98 yrs	0.55 yrs	Three Year*	2.00%	1.91%	1.80%
Weighted Average Life	0.87 yrs	0.62 yrs	Five Year*	1.46%	1.41%	1.27%
			Ten Year*	0.97%	0.93%	0.81%
			Since Inception*	1.81%	1.76%	1.68%
			*Annualized			

  

Portfolio Sector Breakdown

Sector	Percentage
ASSET BACKED SECURITIES	18.32%
BOND	26.89%
CERTIFICATE OF DEPOSIT	17.16%
MONEY MARKET FUNDS	5.27%
U.S. GOVERNMENT	29.36%
AGENCY BONDS	0.65%
COMMERCIAL PAPER	2.32%
CURRENCY	0.03%

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
Net Assets	\$616,657,171.13	N/A	One Month	0.15%	0.79%
NAV per Share	\$10.19	N/A	Three Month	0.49%	1.59%
30 Day SEC Yield	1.45%	N/A	Six Month	1.02%	1.90%
Period Net Total Return	0.74%	0.79%	One Year*	2.19%	4.88%
Effective Duration	1.87 yrs	1.77 yrs	Two Year*	2.15%	3.70%
Average Maturity	2.05 yrs	1.07 yrs	Three Year*	1.92%	2.51%
Weighted Average Life	1.92 yrs	N/A	Five Year*	1.53%	1.89%
			Ten Year*	1.26%	1.61%
			Since Inception*	2.04%	2.55%

\*Annualized

**Portfolio Sector Breakdown**

- AGENCY BONDS - 0.63%
- ASSET BACKED SECURITIES - 17.29%
- BOND - 26.40%
- MONEY MARKET FUNDS - 2.47%
- MUNICIPAL BOND - 3.82%
- U.S. GOVERNMENT - 47.01%
- COMMERCIAL PAPER - 0.63%
- CERTIFICATE OF DEPOSIT - 1.74%
- CURRENCY - 0.01%

Rated AA-f by S&P Global Ratings