

San Mateo County Transit District

Investment Performance Review
For the Quarter Ended December 31, 2016



Portfolio Compliance and Sector Allocation

- The portfolios are in compliance with the District's Investment Policy and the California Government Code.

Security Type ¹	General Fund	Paratransit Fund	Total Funds	% of Portfolio	Permitted by Policy	Average Credit
U.S. Treasury	\$25,622,054	\$9,827,496	\$35,449,550	31.1%	100%	AA+
Federal Agency/GSE	\$31,793,406	\$9,180,635	\$40,974,040	36.0%	100%	AA+
Federal Agency/CMO	\$3,890,741	\$1,084,480	\$4,975,220	4.4%	20%	AA+
Corporate Notes	\$15,909,320	\$3,072,555	\$18,981,875	16.7%	30%	A
Negotiable CDs	\$3,629,052	\$1,008,070	\$4,637,122	4.1%	10%	A+
Commercial Paper	\$7,652,871	\$843,246	\$8,496,117	7.5%	15%	A-1
Money Market Fund	\$253,448	\$93,608	\$347,056	0.3%	10%	AAAm
Total	\$88,750,890	\$25,110,090	\$113,860,980	100.0%		

1. 12/31/2016 market values of portfolio holdings, excluding accrued interest.

Portfolio Earnings and Return

- The District realized earnings of \$156,819 in the primary portfolio and \$39,269 in the paratransit portfolio.
- The total return for the quarter was -0.66% and -0.67% for the primary and paratransit portfolio respectively.
 - The portfolios performed well relative to the benchmark amid declining market values caused by the rise in interest rates.
 - The District's portfolios outperformed the benchmark by 16-17 basis points.

	Earnings		Yield to Maturity		Duration	Performance		
	4 th Quarter 2016	4 th Quarter 2015	Cost	Market	(Years)	3 Months	1 Year	Since Inception*
General Fund	\$156,819	\$187,828	1.24%	1.43%	2.14	-0.66%	0.85%	0.52%
Paratransit Fund	\$39,269	\$50,568	1.19%	1.34%	2.11	-0.67%	0.82%	0.45%
Performance Benchmark	--	--	--	0.81%	2.16	-0.83%	1.65%	1.00%

As of December 31, 2016.
*Since March 31, 2015.

U.S. Economic & Market Highlights

Over the Last 12 Months		Economic Highlights		Market Highlights	
Economy Grew \$534 billion	Jobs Created 2.3 million	Consumer Confidence Highest since 2001	Jobless Claims Lowest since 1974	Equities Record high	2-Yr Treasury Yield Highest since 2011
New Vehicles Sold 17.4 million	New Homes Sold 561 thousand	Consumer Prices Highest since 2014	Housing Prices Record high	US Dollar Highest since 2003	Oil Highest since 2015

As of December 31, 2016.
Source: Bloomberg.

Fourth Quarter Portfolio Activity

- We managed the portfolio's duration to be comparable to the benchmark to reduce potential performance mismatches.
- We sold Federal Agencies as spreads continued to tighten over the quarter.
- We added Agency mortgage-backed securities to the portfolio, seeking incremental income and further portfolio diversification.
- We purchased high-quality corporate securities throughout the quarter. Valuations remained fair-to-modestly-expensive amid tight yield spread levels.
- We purchased commercial paper and certificates of deposit as significant money market reforms during the fourth quarter creating excellent investment opportunities in short-term credit instruments.

Investment Strategy Outlook

- Our primary objectives of the District's investment activities, in priority order, shall be safety of principal, liquidity, and return.
- As 2017 starts with the highest yields in several years, we plan to initially position the portfolio's duration to be aligned with the benchmark.
- Agency yield spreads over Treasuries remain narrow. As a result, our strategy will generally favor U.S. Treasuries over agencies.
- We will continue to evaluate opportunities in the Agency mortgage-backed security sector, purchasing those issues we believe are well structured and offer adequate yield spreads.
- Our strategy continues to favor broad allocation to various credit sectors, including corporate notes, commercial paper, and negotiable bank CDs.
 - Yield spreads on corporate securities remain narrow.
 - Yields on commercial paper and negotiable CDs continue to offer significant yield pickup relative to short-term government securities.