



Investment Report
September 30, 2018

Janet R. Irvin
Director of Finance
Department of Finance
3430 Court House Drive
Ellicott City, MD 21043

Department of Finance

Investment Report As of September 30, 2018

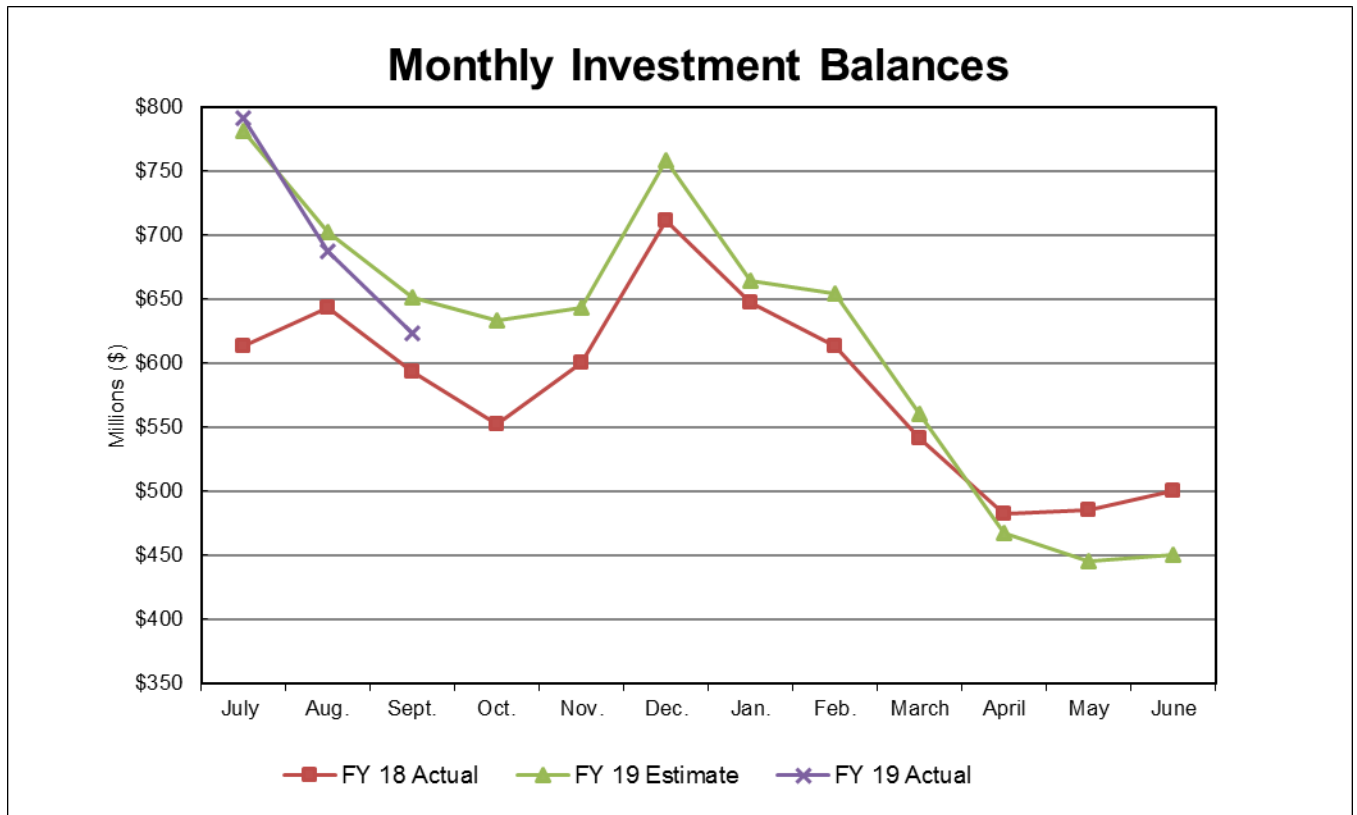
Investment Policy:

Howard County, Maryland invests public funds in a manner that will conform to all State of Maryland and County statutes governing the investment of public funds while meeting its daily cash flow demands and providing a return that most closely matches the three-month Treasury bill yield.

Summary of Portfolio Composition:

| | <u>CURRENT MONTH</u> | <u>PRIOR MONTH</u> |
|-----------------|----------------------|--------------------|
| General Fund | \$292,265,206 | \$363,453,979 |
| All Other Funds | \$331,560,574 | \$323,541,110 |
| Total Portfolio | \$623,825,780 | \$686,995,088 |

The total portfolio balance decreased by \$63.2 million from the previous month. This decrease represents the normal trend as minimal property tax and income tax revenues are received. The County did not break any investments this month and never has. The investment allocations as shown on page 4 were consistent with the County Investment Policy.

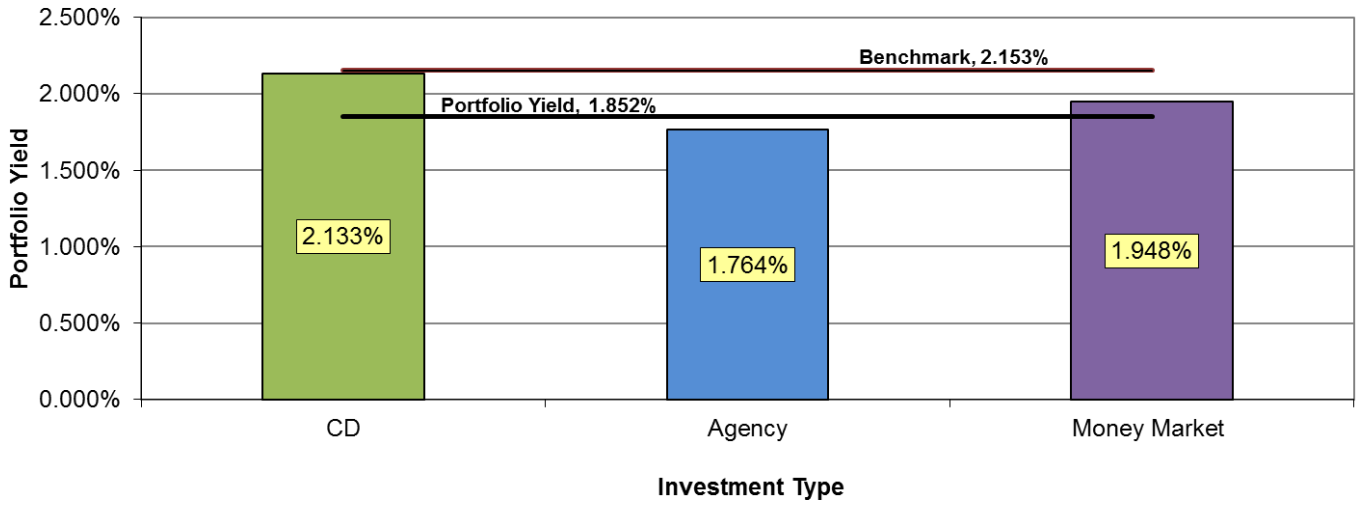


Analysis:

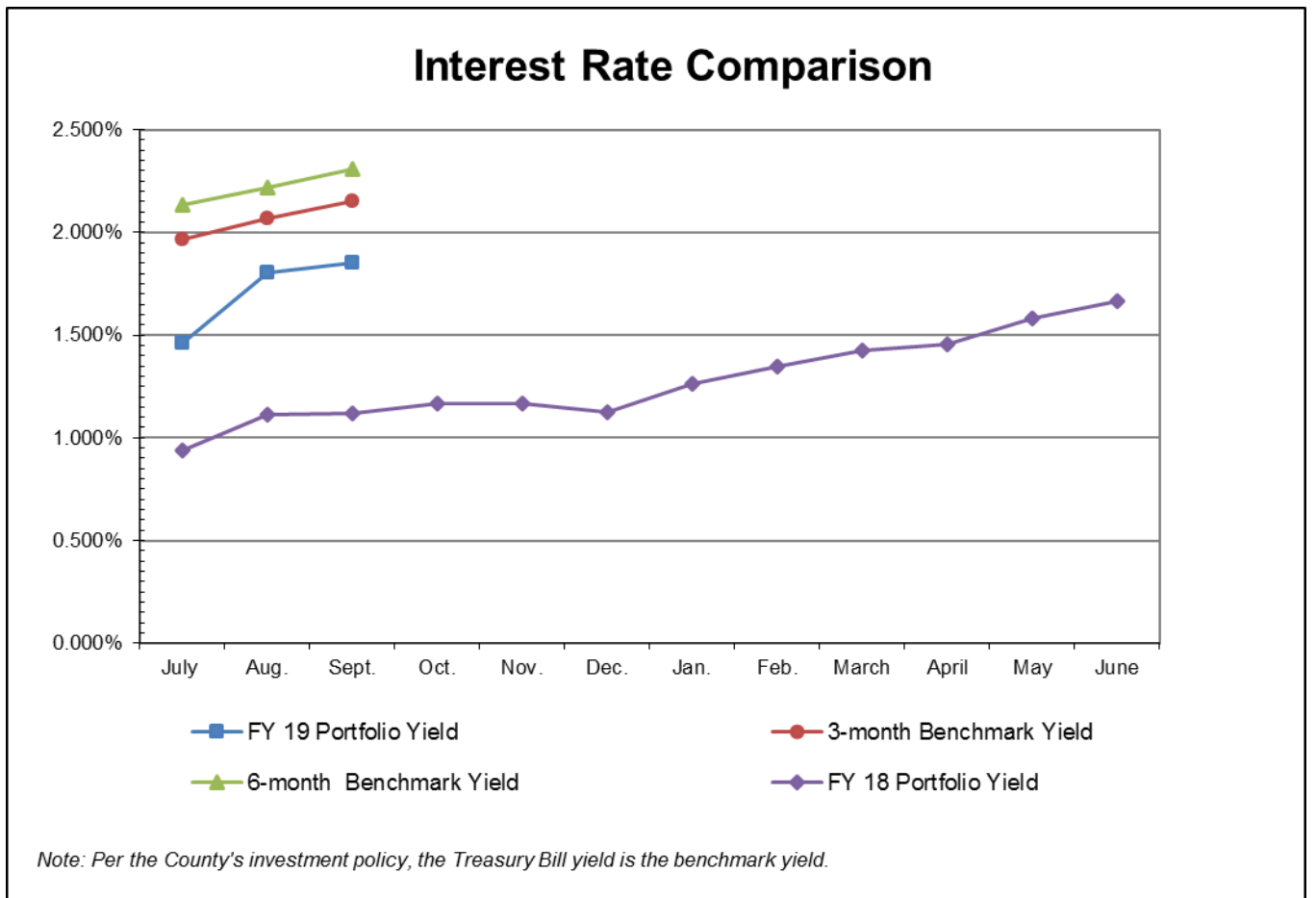
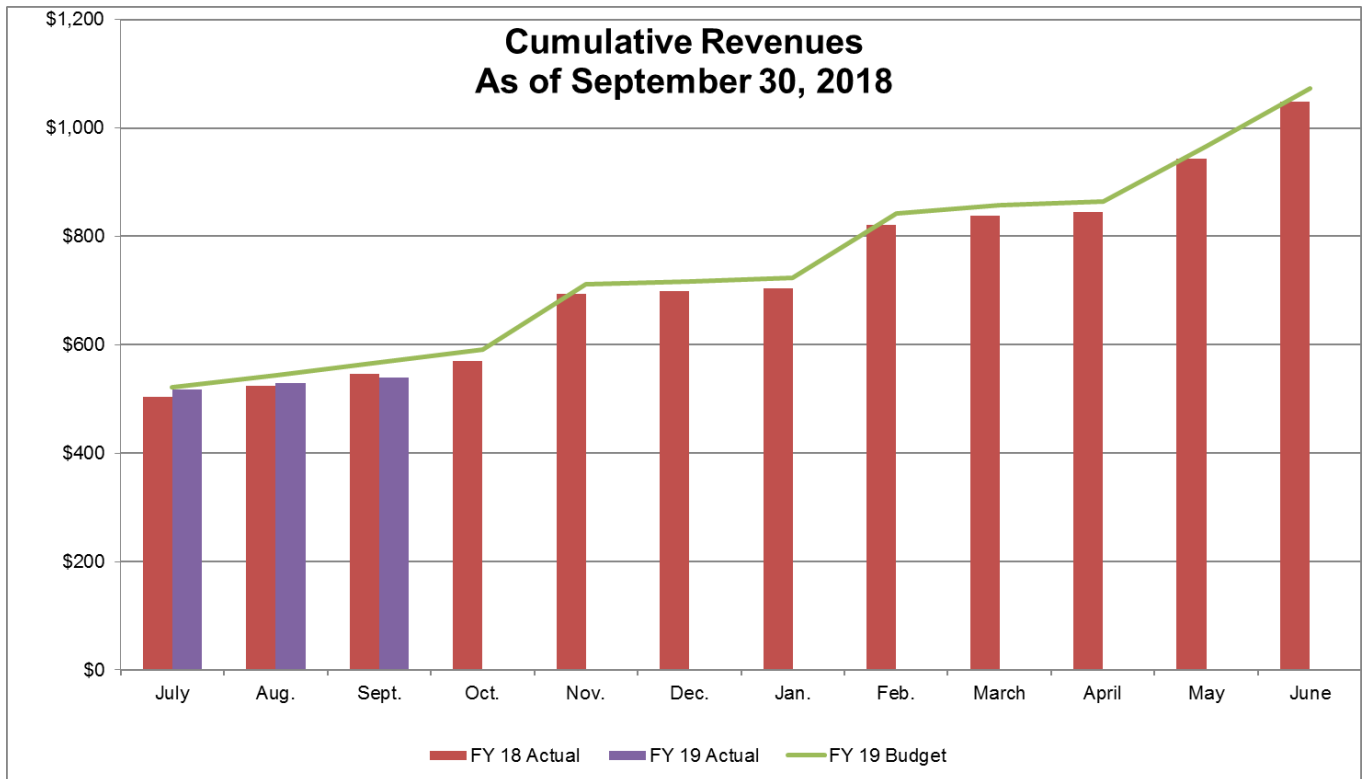
| | <u>CURRENT MONTH</u> | <u>PRIOR MONTH</u> | <u>WEIGHTED AVERAGE FOR 3 MONTHS ENDING SEPTEMBER 30, 2018</u> |
|-----------------------------|----------------------|--------------------|--|
| Portfolio yield | 1.852% | 1.802% | 1.710% |
| Three Month Benchmark yield | 2.153% | 2.068% | 2.062% |

As of September 30, 2018, the average weighted maturity of the portfolio was 65 days.

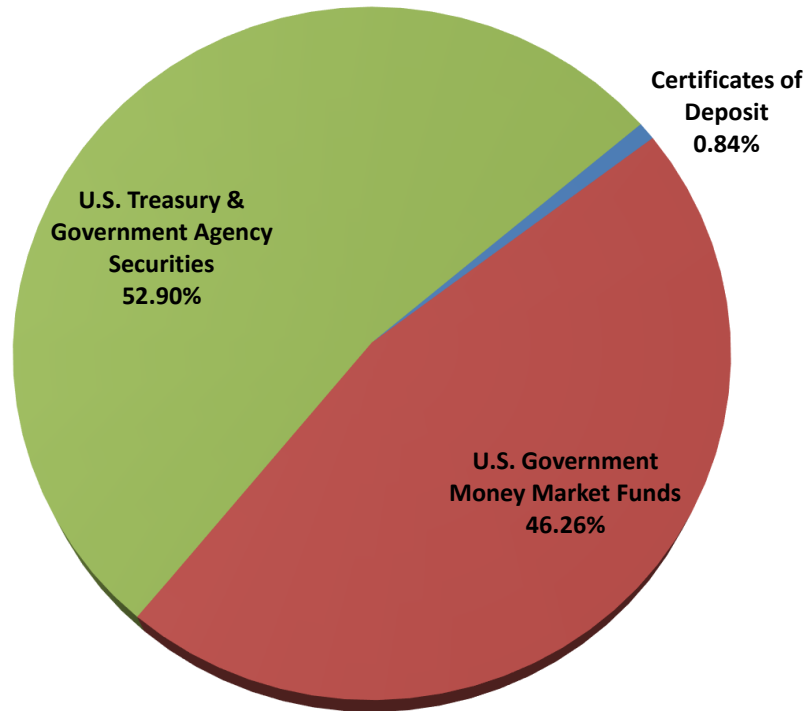
**Portfolio Yield at a Glance
September 30, 2018**



Current Market and Year-Over-Year Comparison:



Investment by Type as of September 30, 2018



See diversification schedule below

Diversification Levels for Authorized Investments

| | Authorized Percentage | Actual Percentage ⁽²⁾ | Actual Amount |
|--|-----------------------|----------------------------------|--------------------|
| U.S. Treasury & Government Agency Securities | 90% | 52.90% | 330,000,000 |
| Repurchase Agreements | 90% | 0.00% | - |
| U.S. Government Money Market Funds | 60% | 46.26% | 288,568,165 |
| Certificates of Deposit | 5% | 0.84% | 5,257,615 |
| Commercial Paper | 5% | 0.00% | - |
| | | <u>100.00%</u> | <u>623,825,780</u> |

Diversification Levels for Authorized Brokers

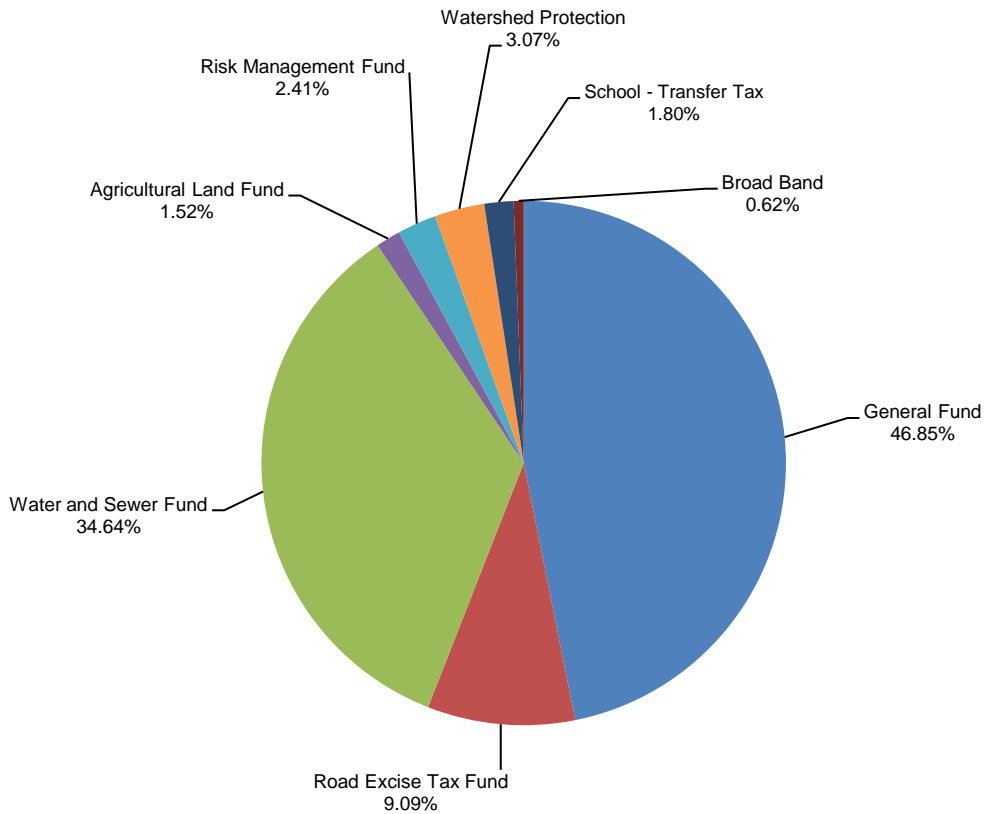
| | Actual Percentage (1) & (2) | Actual Amount |
|-------------------------------------|-----------------------------|--------------------|
| Cantor Fitzgerald | 8.02% | 50,000,000 |
| Columbia Bank (3) | 0.81% | 5,045,407 |
| FTN Financial | 8.02% | 50,000,000 |
| Harbor Bank (3) | 0.02% | 101,000 |
| Jefferies | 3.21% | 20,000,000 |
| Ramirez | 8.02% | 50,000,000 |
| PNC Bank (3) | 0.02% | 111,208 |
| Piper Jaffray | 4.01% | 25,000,000 |
| Stifel, Nicolaus & Co. | 11.29% | 70,415,000 |
| UBS Financial Services | 10.35% | 64,585,000 |
| MD Local Government Investment Pool | 36.85% | 229,897,624 |
| Federated | 9.40% | 58,670,540 |
| | <u>100.00%</u> | <u>623,825,780</u> |

(1) Actual percentages cannot exceed 40% for any one broker or financial institution at the time of purchase.

(2) Due to rounding, percentages may not total 100%.

(3) Certificates of Deposit

**Investment by Fund
As of September 30, 2018**



| | Investment Allocation As of 09/30/2018 | FY 18 Interest Income* Actual | FY 19 Interest Income Budget | FY 19 Interest Income* As of 09/30/2018 |
|------------------------|--|-------------------------------------|------------------------------------|---|
| General Fund | \$ 292,265,206 | \$ 3,028,859 | \$ 2,000,000 | \$ 1,130,896 |
| Road Excise Tax Fund | 56,735,346 | 724,556 | 849,571 | 254,857 |
| Water and Sewer Fund | 216,096,070 | 1,675,862 | 1,425,000 | 351,221 |
| Agricultural Land Fund | 9,485,113 | 121,842 | 40,371 | 27,315 |
| Risk Management Fund | 15,030,934 | 176,661 | 20,000 | 49,748 |
| Watershed Protection | 19,169,811 | 195,745 | 50,000 | 43,468 |
| School - Transfer Tax | 11,200,000 | 99,756 | - | 44,137 |
| Broad Band | 3,843,300 | 39,213 | - | 10,323 |
| | <u>\$ 623,825,780</u> | <u>\$ 6,062,494</u> | <u>\$ 4,384,942</u> | <u>\$ 1,911,965</u> |

* Reported on a budgetary basis.

Note: Due to rounding, percentages may not total 100%.

Investment Schedule

| Type | Book Value | Yield | Purchase Date | Term in Days | Maturity Date |
|--|--------------------|---------------|----------------------|---------------------|----------------------|
| Certificates of Deposit: | | | | | |
| PNC Bank | 111,208 | 1.360% | 03/16/18 | 365 | 03/16/19 |
| Harbor Bank | 101,000 | 2.018% | 07/08/18 | 365 | 07/08/19 |
| Columbia Bank | 5,000,000 | 2.170% | 08/10/18 | 365 | 08/10/19 |
| Columbia Bank | 45,407 | 0.200% | 11/25/17 | 365 | 11/25/18 |
| Total Certificates of Deposit | 5,257,615 | 2.133% | | | |
| U.S. Government Money Market Funds: | | | | | |
| Federated Securities | 58,670,540 | 1.450% | Various | - | On Demand |
| MD Local Govt Investment Pool | 229,897,624 | 2.075% | Various | - | On Demand |
| Total Money Markets | 288,568,165 | 1.948% | | | |

Investment Schedule (Cont.)

| Security Type | Book Value | Yield | Purchase Date | Call Date | Interest Date | Maturity Date |
|--|--------------------|---------------|---------------|-----------|---------------|---------------|
| U.S. Treasury & Government Agency Securities: | | | | | | |
| Federal Home Loan Bank | 25,000,000 | 1.330% | 07/26/17 | | 10/01/18 | 10/01/18 |
| Federal Home Loan Mortgage Corp | 25,000,000 | 1.320% | 08/04/17 | | 10/12/18 | 10/12/18 |
| Federal Home Loan Bank | 25,000,000 | 2.038% | 08/21/18 | | 11/15/18 | 11/15/18 |
| U.S. Treasury Note | 25,000,000 | 2.045% | 06/29/18 | | 11/29/18 | 11/29/18 |
| U.S. Treasury Note | 25,000,000 | 1.840% | 01/30/18 | | 11/30/18 | 11/30/18 |
| U.S. Treasury Note | 25,000,000 | 2.144% | 06/27/18 | | 12/31/18 | 12/31/18 |
| Federal Farm Credit Bureau | 25,000,000 | 1.345% | 05/05/17 | - | 07/17/17 | 01/17/19 |
| Federal Home Loan Mortgage Corp | 10,415,000 | 1.371% | 08/01/17 | 10/25/17 | 01/25/19 | 01/25/19 |
| Federal Home Loan Bank | 10,000,000 | 1.366% | 08/04/17 | | 02/15/19 | 02/15/19 |
| Federal Home Loan Bank | 25,000,000 | 2.215% | 07/25/18 | | 02/15/19 | 02/15/19 |
| Federal Farm Credit Bureau | 14,585,000 | 1.340% | 08/01/17 | - | 02/27/19 | 02/27/19 |
| U.S. Treasury Note | 25,000,000 | 2.290% | 07/26/18 | | 03/31/19 | 03/31/19 |
| U.S. Treasury Note | 25,000,000 | 2.325% | 08/06/18 | | 04/30/19 | 04/30/19 |
| Federal Agricultural Mortgage Corporation | 20,000,000 | 1.375% | 08/17/17 | - | 05/17/19 | 05/17/19 |
| Federal Home Loan Bank | 25,000,000 | 1.393% | 08/01/17 | - | 06/14/19 | 06/14/19 |
| Total U.S. Treasury & Govt Agency Securities | 330,000,000 | 1.764% | | | | |
| Total Investment Balance (Page 6 & 7) | 623,825,780 | 1.852% | | | | |

| | |
|----------------------------|---------------|
| Portfolio Yield | 1.852% |
| Benchmarks: | |
| Three-month Treasury Yield | 2.153% |
| Six-month Treasury Yield | 2.305% |
| Money Market Funds Yield | 1.948% |

The above report has been approved by:

Janet R. Irvin
 Janet R. Irvin
 Director of Finance

11/29/18
 Date

Notes to Investment Schedule

1. Certificates of Deposit and Repurchase Agreements

The County can only purchase Certificates of Deposit (CD's) from banks located in the State of Maryland. The banks currently holding CD's for the County are: The Columbia Bank, Harbor Bank, and PNC Bank. The County currently maintains repurchase agreements with Cantor Fitzgerald and UBS Financial Services, Inc.

All certificates of deposit and repurchase agreements are collateralized at 102% of their cost plus accrued interest or FDIC insured. The collateral is held at Wells Fargo Bank.

2. Social Investing

The County invests in instruments offered by community and minority financial institutions. These financial institutions may not meet all of the criteria listed in the County's Investment Policy as authorized dealers and institutions. These institutions are: The Columbia Bank and Harbor Bank. The County maintains a Certificate of Deposit with PNC Bank so that Landfill operation employees can have access to banking services there.

3. Agricultural Land Preservation Program

The County finances the acquisition of development rights to a parcel of agricultural property by entering into an installment-purchase agreement with the property owner. US Treasury Strips, purchased as part of the County's Agricultural Land Preservation program, will be used to match balloon payments to the property owner. The table below shows the detail information regarding the investment in Stripped Coupon U.S. Treasury Securities.

| Maturity Date | Par Value¹ Balloon Payment | Original² Cost | Book Value³ 6/30/2018 |
|---|--|--------------------------------------|---|
| 8/15/2018 | 759,000 | 526,928 | 755,223 |
| 2/15/2019 | 2,160,000 | 241,035 | 2,061,068 |
| 2/15/2019 | 2,810,000 | 313,836 | 2,682,281 |
| 8/15/2019 | 1,860,000 | 177,721 | 1,699,806 |
| 2/15/2020 | 840,000 | 82,002 | 739,465 |
| 2/15/2020 | 4,695,000 | 441,375 | 4,119,749 |
| 8/15/2020 | 2,275,000 | 201,816 | 1,910,482 |
| 8/15/2020 | 7,385,000 | 735,117 | 6,247,028 |
| 2/15/2021 | 1,510,000 | 146,510 | 1,227,880 |
| 2/15/2021 | 4,626,000 | 444,639 | 3,752,976 |
| 8/15/2021 | 1,115,000 | 120,697 | 877,886 |
| 8/15/2021 | 2,580,000 | 253,144 | 2,011,643 |
| 8/15/2023 | 3,359,000 | 362,503 | 2,263,944 |
| 8/15/2023 | 6,928,000 | 854,220 | 4,748,040 |
| 2/15/2025 | 374,000 | 66,011 | 252,069 |
| 2/15/2025 | 183,000 | 27,404 | 118,457 |
| 2/15/2026 | 3,950,000 | 560,900 | 2,376,057 |
| 8/15/2026 | 1,295,000 | 175,073 | 741,679 |
| 11/15/2027 | 2,158,000 | 478,644 | 1,238,756 |
| Total | \$ 50,862,000 | \$ 6,209,578 | \$ 39,824,487 |
| ¹ Purchase price plus accrued interest at maturity | | | |
| ² Purchase price | | | |
| ³ Purchase price plus accrued interest as of 6/30/18 | | | |

Types of Investment Instruments

Bankers Acceptances (BA's): Financial transactions involving the import or export of goods. A bank agrees to lend money to an importer to finance the purchase of goods. The bank then sells this agreement to an investor (the County) who receives compensation in the form of interest.

Characteristics:

1. Very safe: There has never been a BA failure in their history
2. Can only purchase BA's from banks rated A1 or P1
3. Three guarantees back this investment:
 - a. Obligation to pay by the importer
 - b. Guarantee from the accepting bank
 - c. The goods themselves
4. Maturities less than 180 days
5. Generally higher yielding than Repos

Restrictions: The County currently does not purchase Japanese BA's.

Certificates of Deposits: A time deposit with a specific maturity evidenced by a certificate. All deposits held in minority or community banks.

Money Market Funds: Current holdings include the Maryland Local Government Investment Pool (MLGIP) and Federated. MLGIP is designed to provide all local government units of the State an investment vehicle for the short-term investment of funds. The County's cash in these money market funds is obtainable on demand.

Repurchase Agreement (Repo): An investment contract involving the temporary transfer of ownership of U.S. Government securities between a broker and an investor (the County). A broker agrees to sell U.S. Treasury or Government Agency Securities to the County and agrees to repurchase them at a fixed price on a fixed date. The County receives the original purchase price and compensation in the form of interest on the maturity date.

Characteristics:

1. Very safe: only collateralized U.S. Government securities
2. Very flexible: maturities from one day to one year
3. Higher yields than purchasing securities outright

U.S. Treasury and Government Agency Securities: Considered the safest investments in the world. The U.S. Government and its agency issue these securities to finance their operations. Maturities range from three months to 30 years, however, the County, per our investment policy, is limited to five-year maturities.

Characteristics:

1. Very safe
2. Very liquid: can be sold very easily

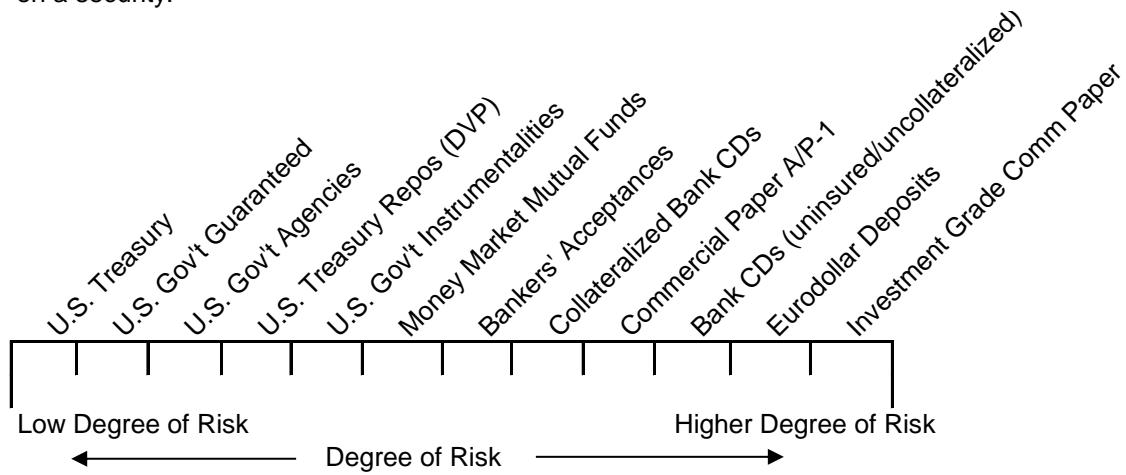
Main Agency issuers:

1. Federal Farm Credit Bank (FFCB)
2. Federal National Mortgage Association (FNMA)
3. Federal Home Loan Bank (FHLB)
4. Federal Home Loan Mortgage Corporation (FHLMC)
5. Federal Agricultural Mortgage Corporation (FAMC)

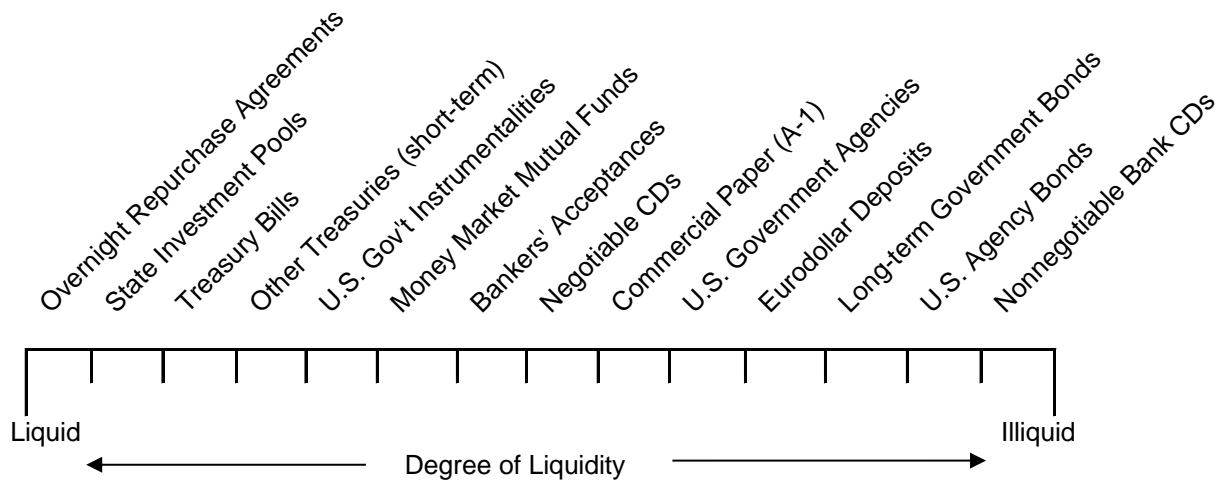
Commercial Paper: Per the County's investment policy, must have minimum rating of A1, P1 or F1 from the credit rating agencies.

Key Investing Terms

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.



Liquidity: An asset that can be converted easily and quickly into cash.



Distribution:

- County Executive
- County Council
- County Auditor
- Chief Administrative Officer
- Office of Public Information
- Budget Director