

Item No.:  
Meeting Date:

7d Supp  
March 8, 2016

# Annual Treasury And Investment Portfolio Update for 2015

Commission Briefing  
Presented by Diane Campbell  
March 8, 2016

Port   
of Seattle®

# Treasury Management Update

- Background
- Portfolio Composition and Performance
- Appendix – Investment Policy Highlights

# Treasury Functions

- Manage banking activities
- Cash and liquidity management & investing funds
- Execute and fund payments
- Coordinates processes and controls with Accounting & Financial Reporting and Information & Communications Technology departments complying with statute

# Background

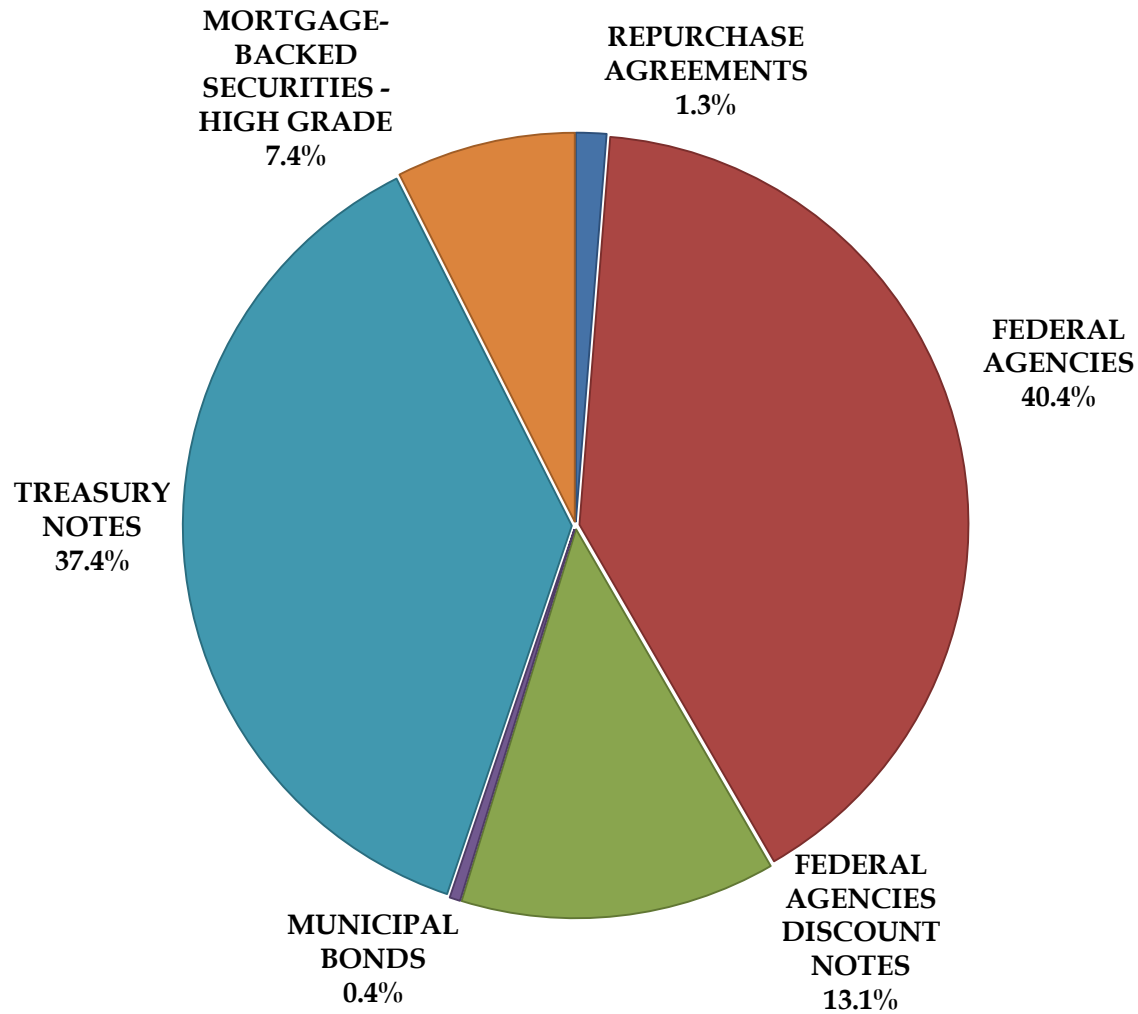
- Authorized investments are made in accordance with and subject to restrictions of the Revised Code of Washington (RCW) 36.29.020.
- Commission resolution approved Port investment policy, adopted as of June 11, 2002.
- The investment policy is reviewed periodically, and amended as appropriate to follow best practices. Last amendment: June 5, 2012. No changes requested at this time.

State laws limits who the Port can bank with and what the portfolio can invest in. Highlights of the Port's investment policy in appendix.

# Investments Update

# Portfolio Composition

12/31/2015



High quality and diversified portfolio.

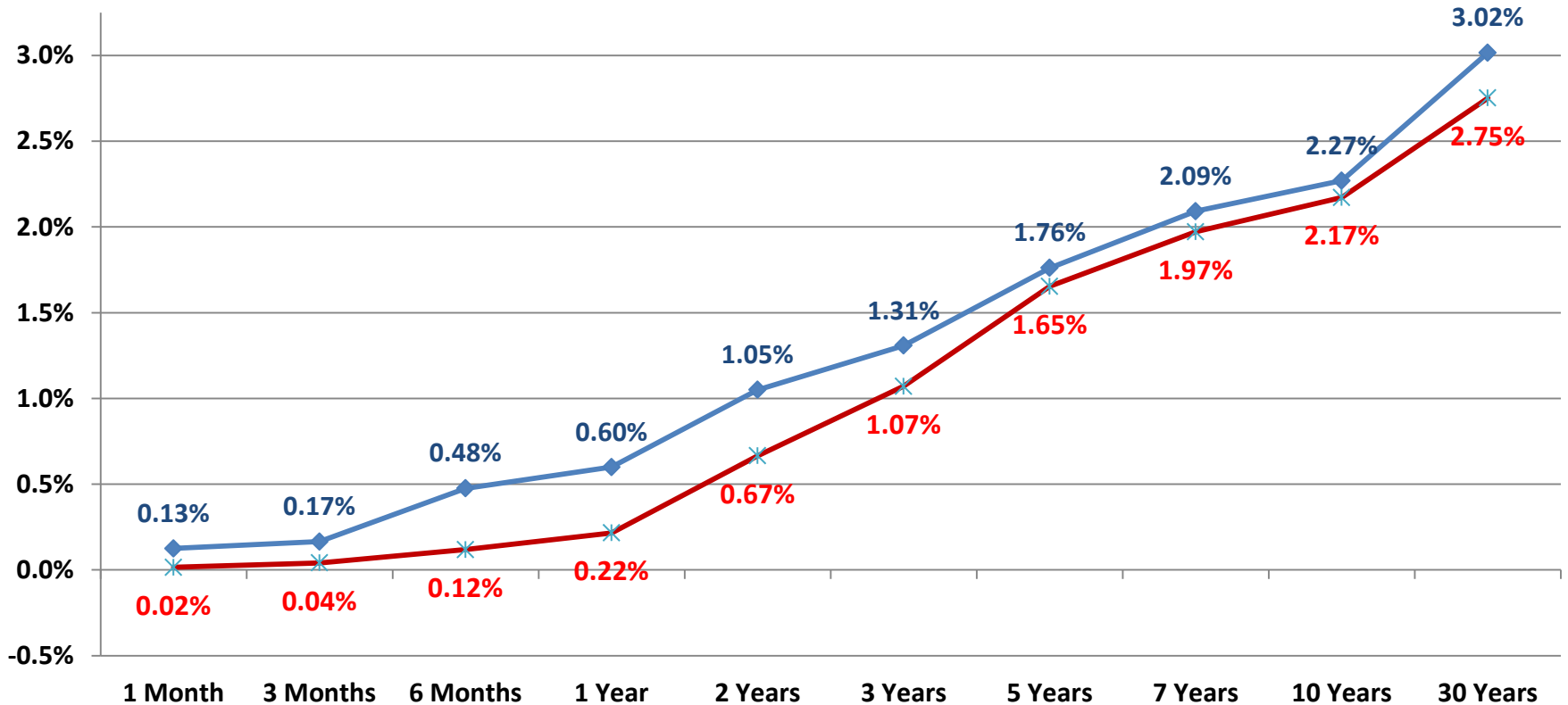
# Interest Rates Trends

- By year-end 2015 interest rates across the yield curve were higher than the previous year.
- The Federal Reserve increased the federal funds target rate upper bound by 0.25% to 0.50% in December 2015, the first increase since 2010, and may make additional increases during 2016.
- Staff monitors market conditions, but does not time the market.

Rising interest rate environment.

# Treasury Yield Curve 2015

◆ 12/31/2015    ✖ 12/31/2014

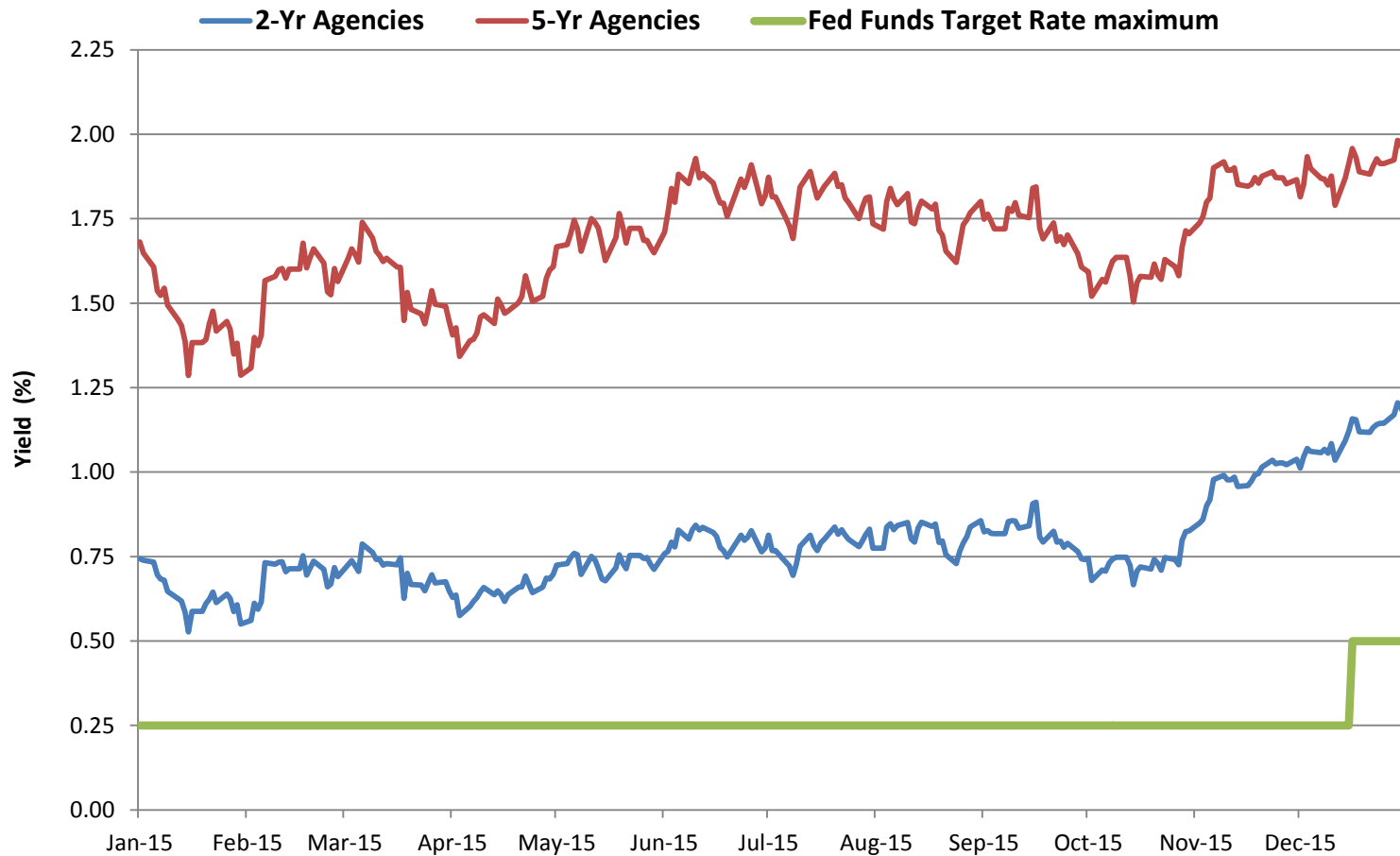


Source: Bloomberg

Interest rates were higher than the previous year by the end of 2015.



# 2015 Select Interest Rates



Sources: Bloomberg; Federal Reserve

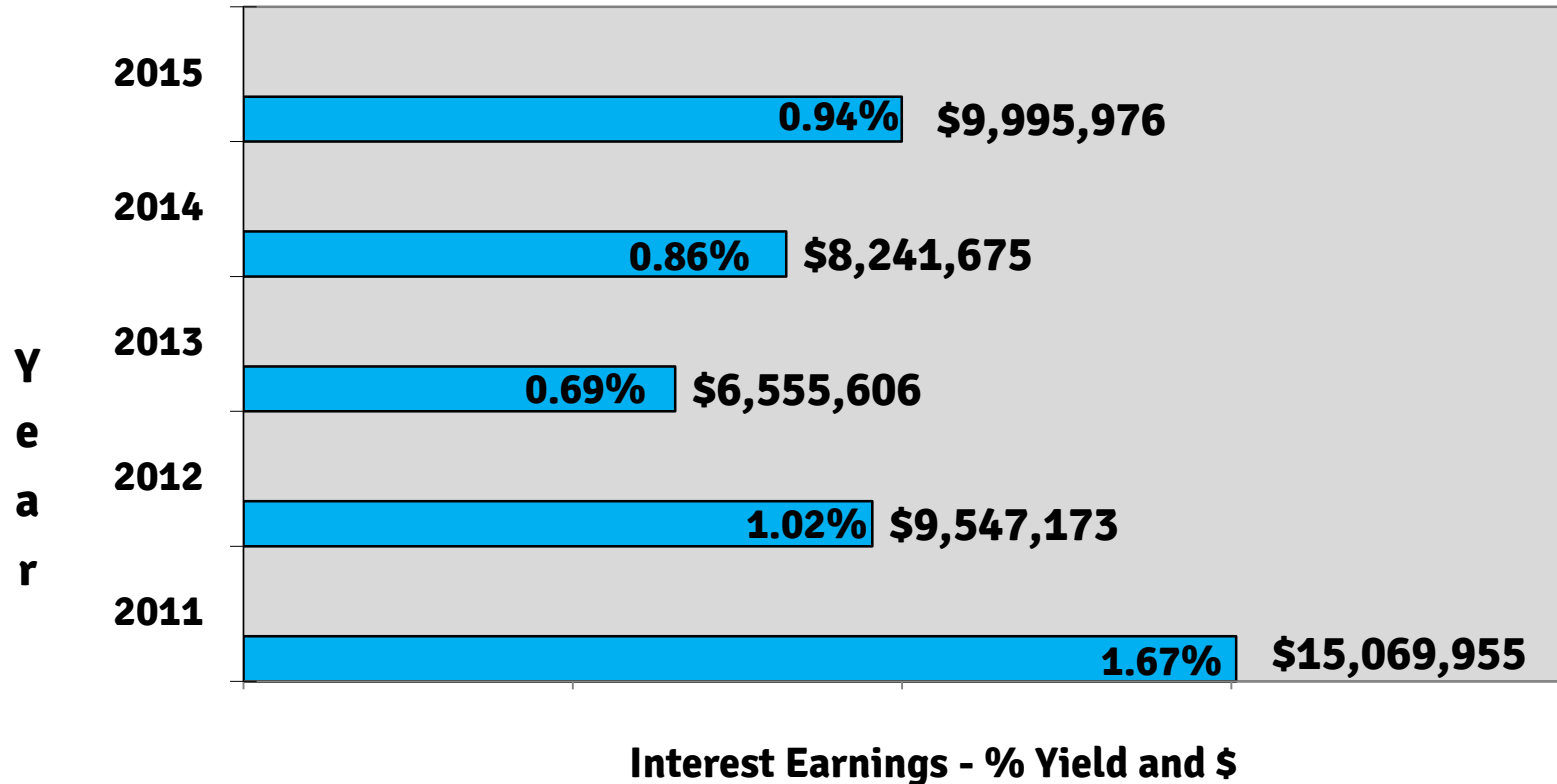
Interest rates trended upwards throughout the year.

# 2015 Yield Comparison

	Benchmark	Port's Pool
Q1-2015	0.57%	0.81%
Q2-2015	0.64%	0.79%
Q3-2015	0.64%	0.98%
Q4-2015	1.07%	1.10%
<b>Annual</b>	<b>0.73%</b>	<b>0.94%</b>

Port's Pool outperformed the Benchmark by 0.21%.

# Portfolio Earnings 2011 – 2015



The annual earnings rate is increasing.

# Yield History

<u>Year(s)</u>	<u>Benchmark</u>	<u>Port's Pool</u>
2002 - 2006	3.13%	3.69%
2007 - 2011	1.73%	3.08%
2012	0.31%	1.02%
2013	0.35%	0.69%
2014	0.55%	0.86%
2015	0.73%	0.94%

**14 years**

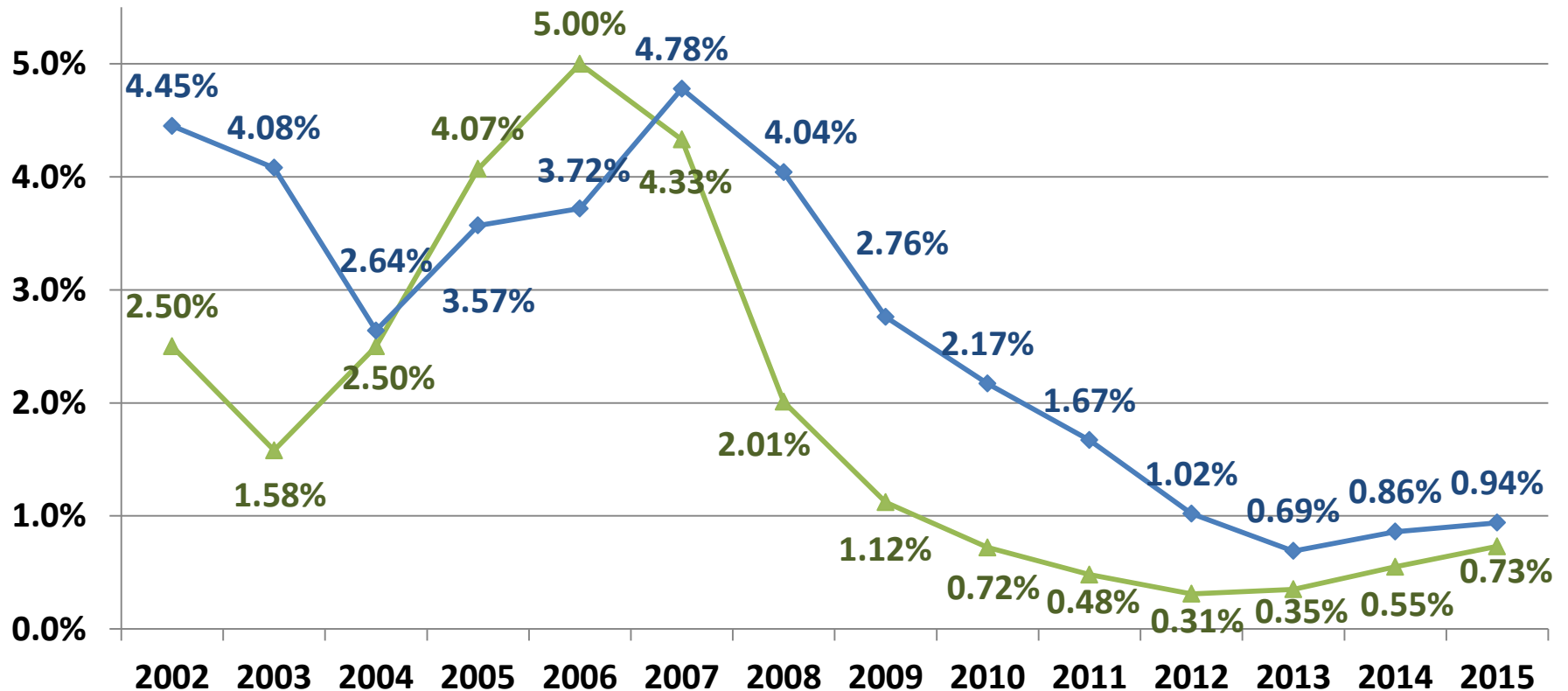
**1.87%**

**2.67%**

- Port's Pool has outperformed the Benchmark by 0.80% over the long term.
- During certain time periods, e.g., a rising interest rate environment, the Port's Pool may underperform.

# Yield History

▲ Benchmark ◆ Port's Pool



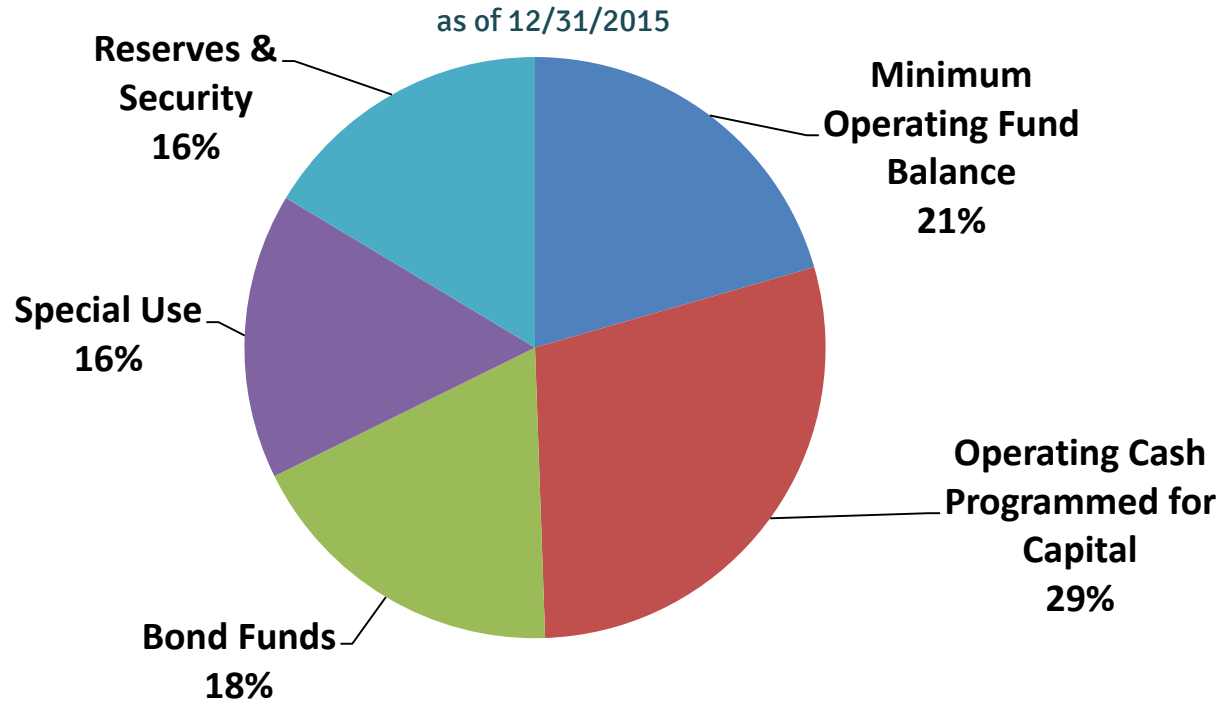
Port's Pool outperforms, on aggregate, over the long term, but may underperform during a rising interest rate environment.

# Investment Portfolio Size Fluctuates

- \$1.25 billion as of 12/31/2015 versus \$900 million at prior year's end
- Over the most recent 5 years, the size has ranged from \$879 million to \$1.27 billion
- Fluctuations are mostly tied to capital funding and spending:
  - bond issues to fund projects increase the portfolio
  - capital project spending reduces the portfolio size

More than half of the portfolio represents funds for special and restricted uses.

# Investment Pool Participating Funds



## Examples:

- Minimum Operating Fund Balance: General & Airport Development = 9 months O&M expense
- Operating Funds for Capital: General, Airport, Tax Levy funds programmed to be spent over the next few years.
- Bond Funds: Capital projects
- Reserves & Security: Bond reserves, customer lease security
- Special Use (primarily for capital projects): Passenger & Customer Facility Charges, Transportation & Infrastructure

More than half of the pool's funds are for special and restricted uses.

# Appendix: Investment Policy Highlights

The complete Investment Policy is attached.



# Investment Policy Highlights

- Emphasis on preservation of principal
- Priority of policy objectives
  - 1) Safety
  - 2) Liquidity
  - 3) Yield
- Covers all capital and operating funds
- Does not cover funds held separately in trust, e.g. deferred compensation plans and pension trusts

# Investment Policy Highlights

- To meet the policy's primary investment objectives, additional risk controls are included that impose further restrictions on the types of securities. These include:
  - limit maturity date - no more than 10 years from settlement date, and
  - portfolio target modified duration of 2.0 years, plus or minus 1/2 year.
- Benchmark – Bank of America Merrill Lynch Treasury/Agency 1-3 Years Index
- Long term strategy: do not forecast interest rates; balance RETURN and RISK over cycles
  - this strategy outperforms the market when rates are falling and underperforms when rates are rising

State laws limits what the portfolio can invest in.

# Investment Policy Highlights

- Establishes prudence, ethics, conflict of interest and disclosure requirements for investment officials
- Port's CFO and appointed Treasurer is responsible for managing the Port's investment program
- Authorizes Treasurer to delegate day-to-day duties and responsibilities related to investment program
- Provides for safekeeping and custody of portfolio securities

# Investment Policy Highlights

- Establishes criteria for eligible depositories and broker/dealers
- Sets out allowed investment instruments; subject to State law
- Establishes portfolio diversification parameters
- Establishes maturity restrictions

# Investment Policy Highlights

- Sets portfolio performance standards
- Allows for independent review of the investment program
  - State Auditor
  - External Auditors
  - Internal Auditor
- Establishes reporting standards