

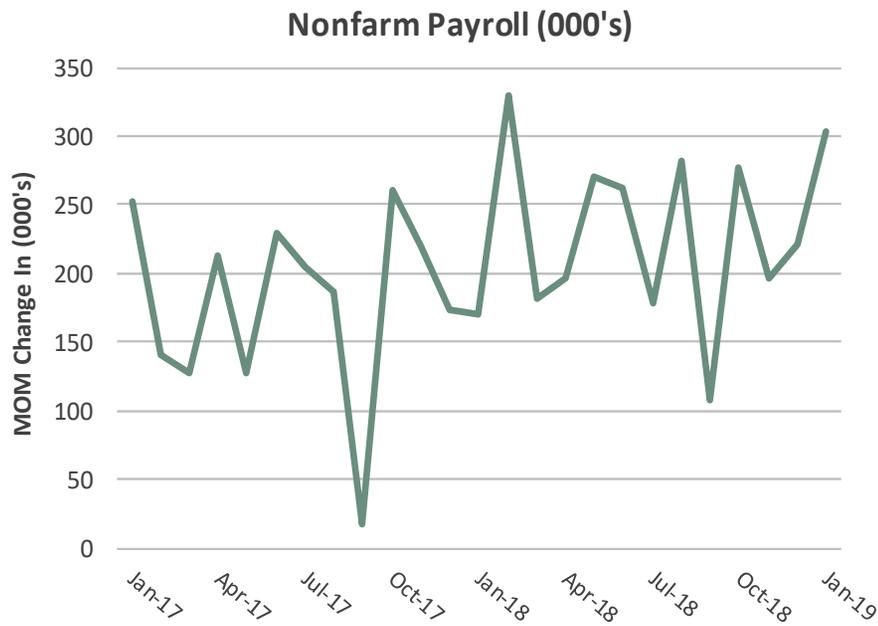
# City of South San Francisco

*Period Ending February 28, 2019*

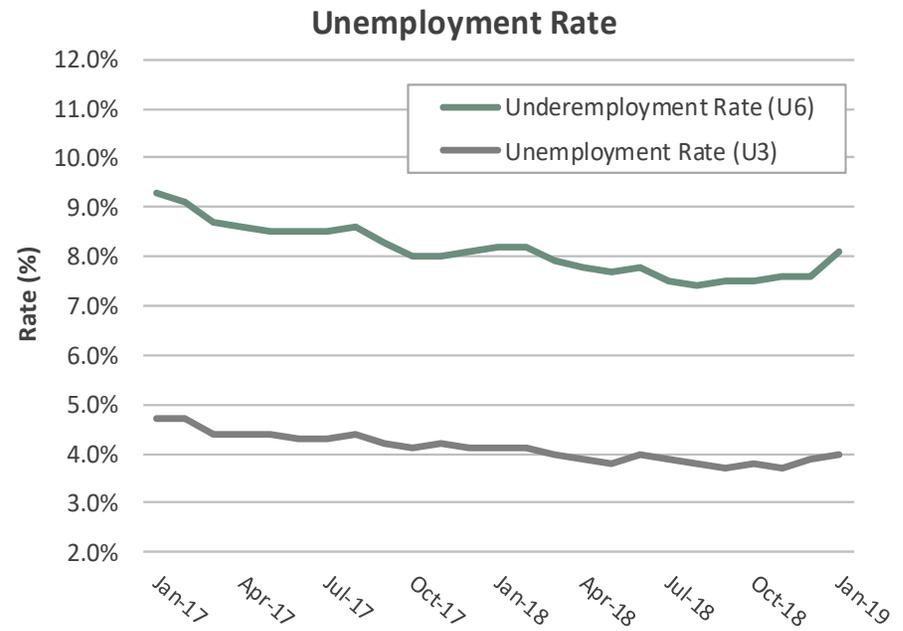
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# Employment



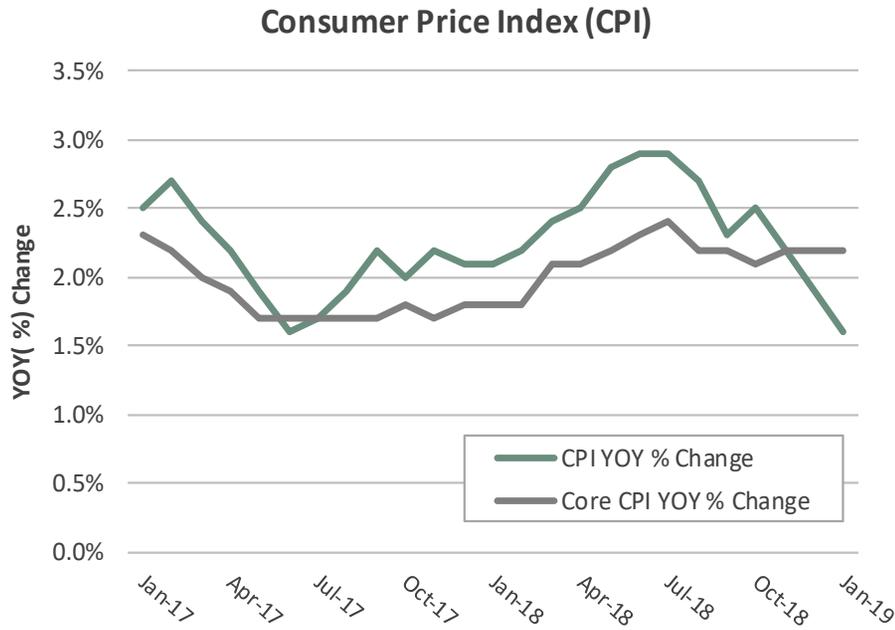
Source: US Department of Labor



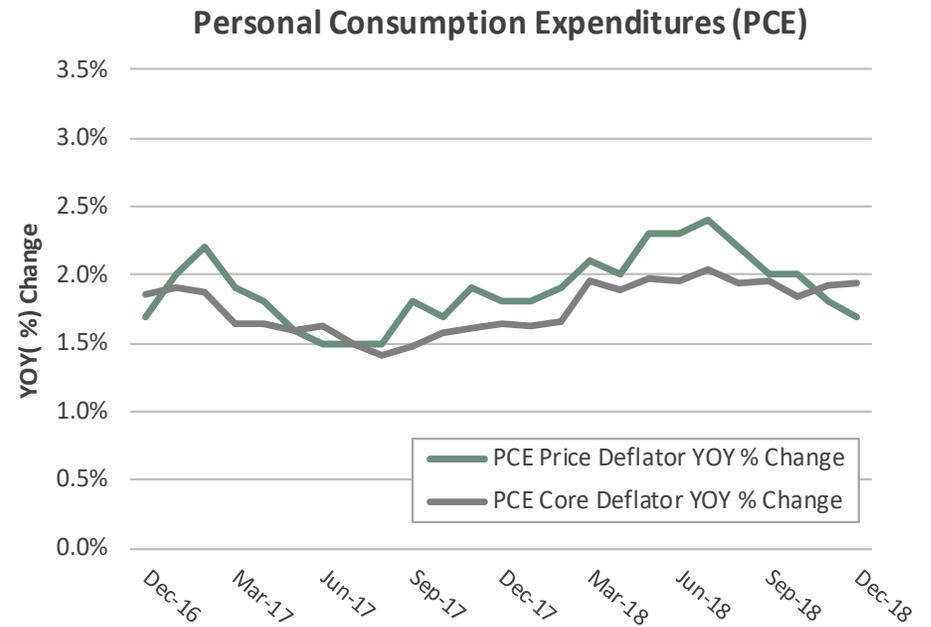
Source: US Department of Labor

U.S. payrolls rose by 304,000 in January, well above the consensus forecast of 165,000. November and December payrolls were revised down by a total of 70,000, but on a trailing 3-month and 6-month basis payrolls increased an average of 241,000 and 232,000 per month, respectively, more than enough to absorb new entrants into the labor market. The unemployment rate edged up to 4.0% in January from 3.9% in December. The labor participation rate also increased to 63.2% from 63.1%. A broader measure of unemployment called the U-6, which includes those who are marginally attached to the labor force and employed part time for economic reasons, increased to 8.1% from 7.6%. Wages rose just 0.1% in January, following a 0.4% increase in December. On a year-over-year basis, wages were up 3.2% in January unchanged from December. The average workweek was 34.5 hours in January, unchanged from December.

# Inflation



Source: US Department of Labor



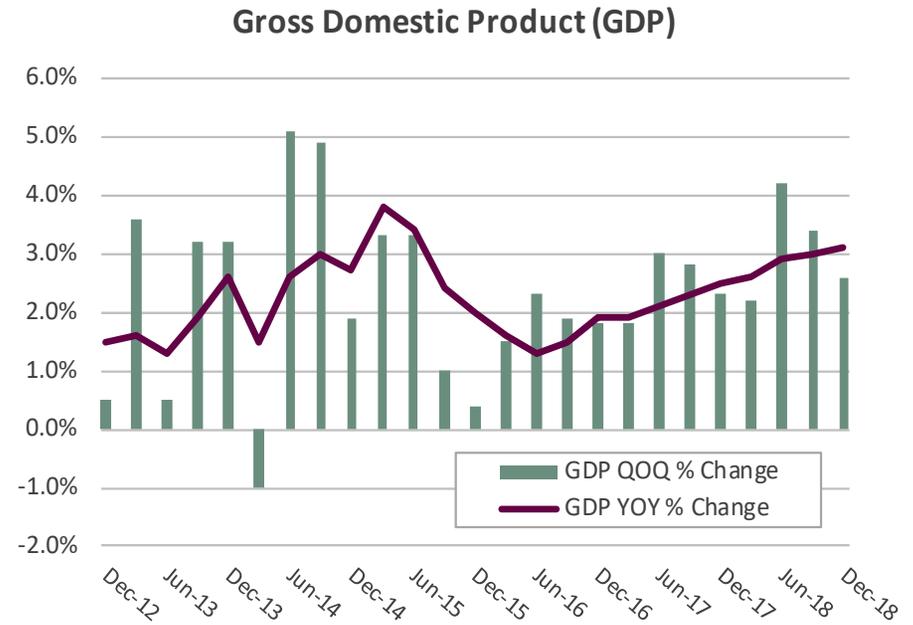
Source: US Department of Commerce

The Consumer Price Index (CPI) was up just 1.6% year-over-year in January, versus up 2.0% year-over-year in December, reflecting the year-over-year decline in energy prices. Core CPI (CPI less food and energy) was up 2.2% year-over-year in January, unchanged on a year-over-year basis from December. The Personal Consumption Expenditures (PCE) index was up just 1.7% year-over-year in December, versus up 1.8% year-over-year in November. Core PCE was unchanged at 1.9% year-over-year in December, just slightly below the Fed's 2.0% inflation target. The data on PCE and core PCE for January remains delayed due to the government shutdown.

# Gross Domestic Product (GDP)

Components of GDP	3/18	6/18	9/18	12/18
Personal Consumption Expenditures	0.4%	2.6%	2.4%	1.9%
Gross Private Domestic Investment	1.6%	-0.1%	2.5%	0.8%
Net Exports and Imports	0.0%	1.2%	-2.0%	-0.2%
Federal Government Expenditures	0.2%	0.2%	0.2%	0.1%
State and Local (Consumption and Gross Investment)	0.1%	0.2%	0.2%	0.0%
<b>Total</b>	<b>2.2%</b>	<b>4.2%</b>	<b>3.4%</b>	<b>2.6%</b>

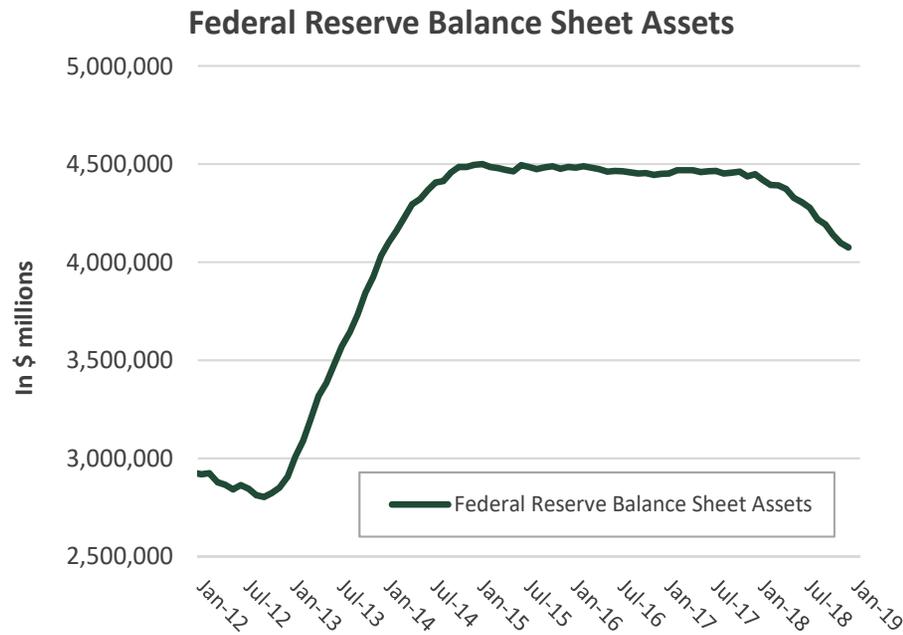
Source: US Department of Commerce



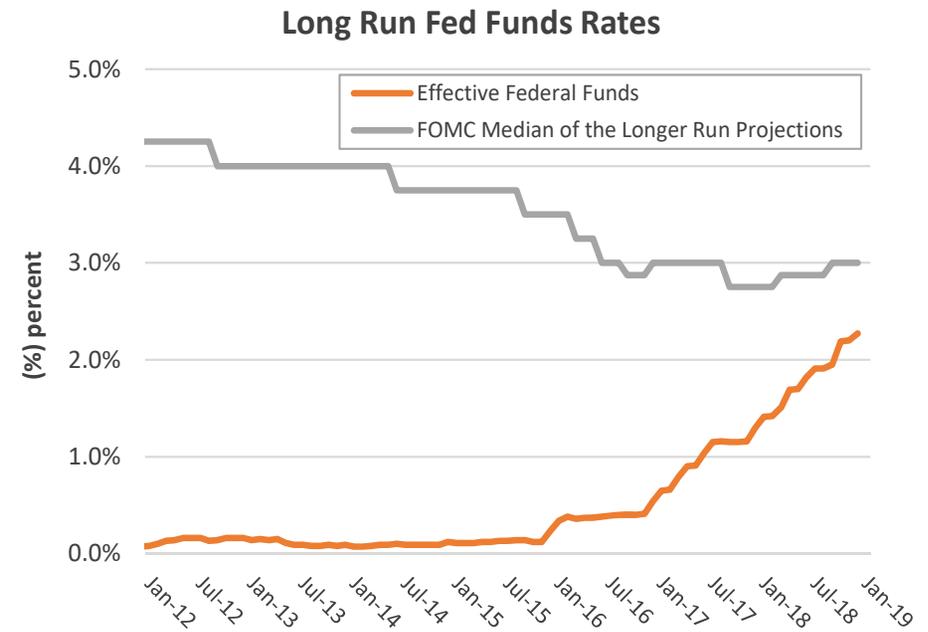
Source: US Department of Commerce

Economic growth was stronger than expected in the fourth quarter of 2018, with annualized GDP growth of 2.6% versus expectations of 2.2%. This follows GDP growth of 3.4% in the third quarter and 4.2% in the second quarter. Although consumer spending was less robust than the previous two quarters, it continued to fuel overall economic growth, rising 2.8% in the fourth quarter on an annualized basis, following growth of 3.4% in the third quarter and 4.2% in the second quarter. The fourth quarter slowdown in economic growth was less drastic than many economists predicted, however, the consensus forecast calls for a more pronounced slowdown in the current quarter to 2.0%. Overall, GDP growth is expected to slow this year to roughly 2.5% from 2.9% last year, according to the consensus.

# Federal Reserve



Source: Federal Reserve

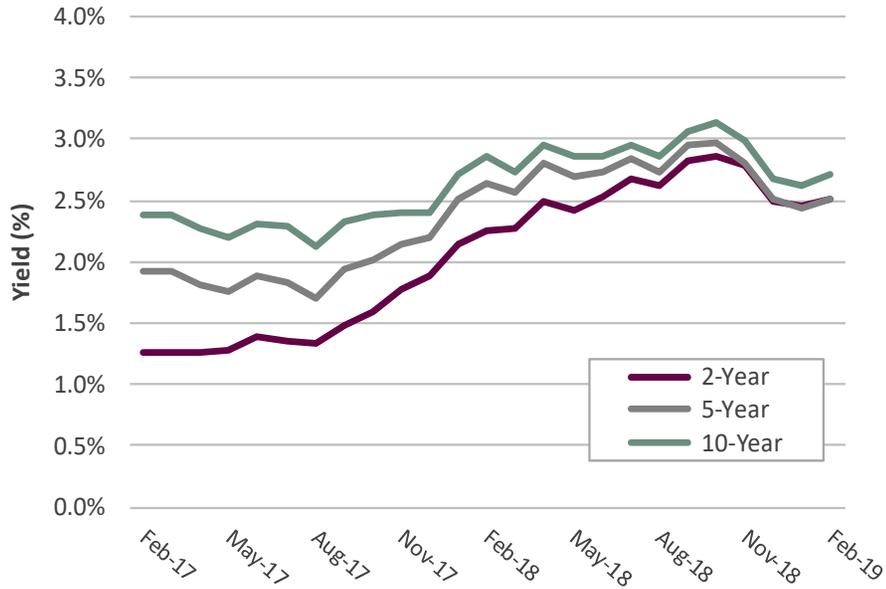


Source: Bloomberg

The Fed is getting closer to its long-run median federal funds rate target of 2.8%, which has been moving lower for more than 5 years. The Fed reaffirmed its plans to reduce its balance sheet by \$150 billion per quarter. We believe a right sized balance sheet for the Fed to achieve its goal is approximately \$2.5 – \$3.5 trillion.

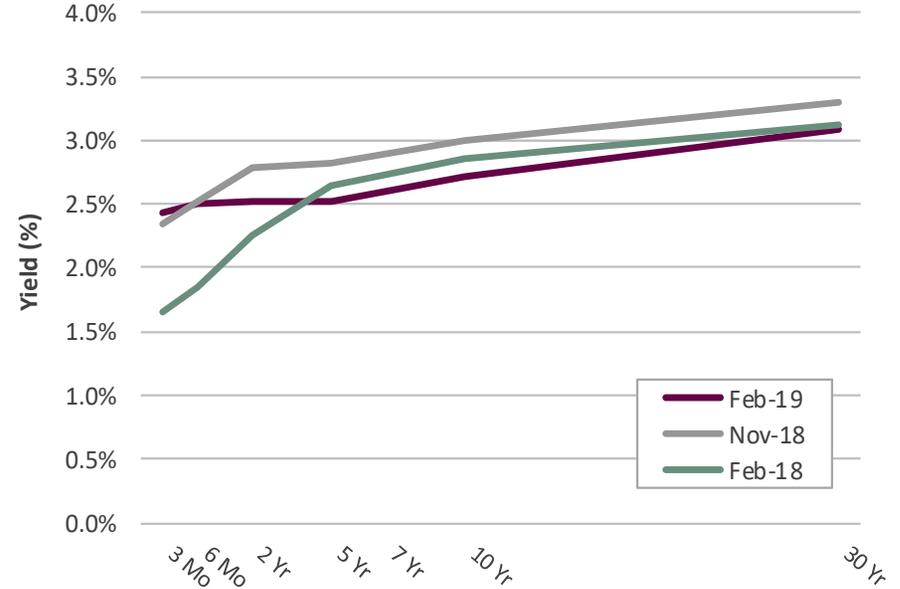
# Bond Yields

### US Treasury Note Yields



Source: Bloomberg

### US Treasury Yield Curve



Source: Bloomberg

On a year-over-year basis, the Treasury yield curve has flattened with short-term rates higher and long-term rates lower on a year-over-year basis. The yield on 2-Year Treasuries has increased 26 basis points year-over-year, while the yield on 10-Year Treasuries has declined nearly 15 basis points. At the end of February, the spread between 2-Year and 10-year Treasury yields narrowed from 61 basis points to 20 basis points year-over-year. Rate hikes by the Federal Reserve have put upward pressure on shorter-term rates, while slower global economic growth and subdued inflation expectations have put downward pressure on longer-term rates.

# Portfolio Characteristics

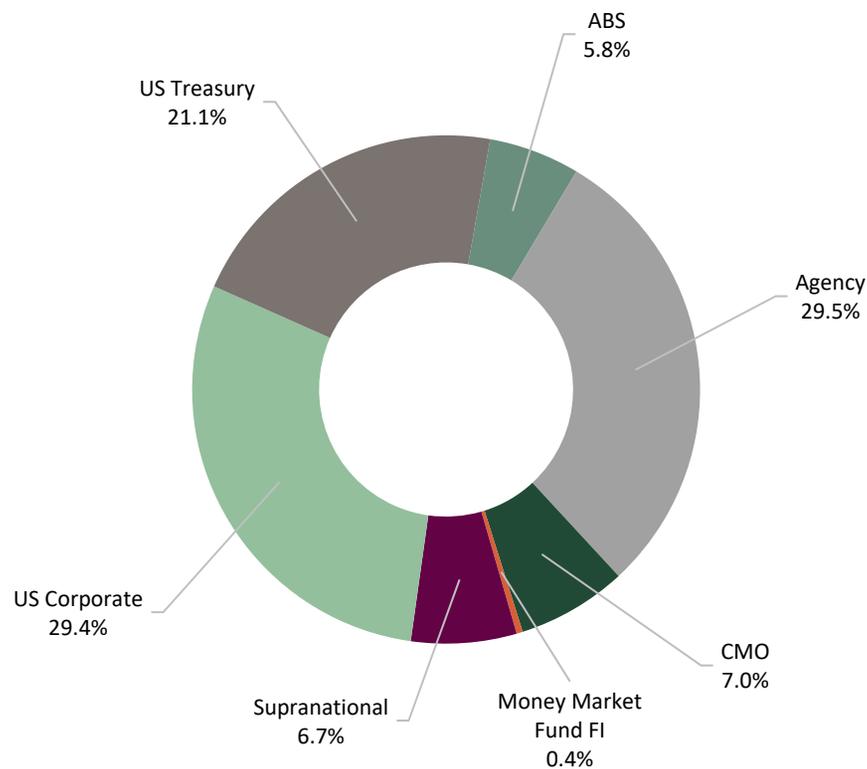
As of February 28, 2019

## So San Francisco Mid-Term (Chandler) Portfolio

	2/28/2019		11/30/2018
	Benchmark*	Portfolio	Portfolio
Average Maturity (yrs)	2.62	2.51	2.66
Average Modified Duration	2.50	2.27	2.39
Average Purchase Yield	n/a	2.15%	2.13%
Average Market Yield	2.52%	2.67%	3.05%
Average Quality**	AAA	AA/Aa2	AA/Aa2
Total Market Value		99,953,673	98,350,538

\*ICE BAML 1-5 Yr US Treasury/Agency Index

\*\*Benchmark is a blended rating of S&P, Moody's, and Fitch. Portfolio is S&P and Moody's respectively.

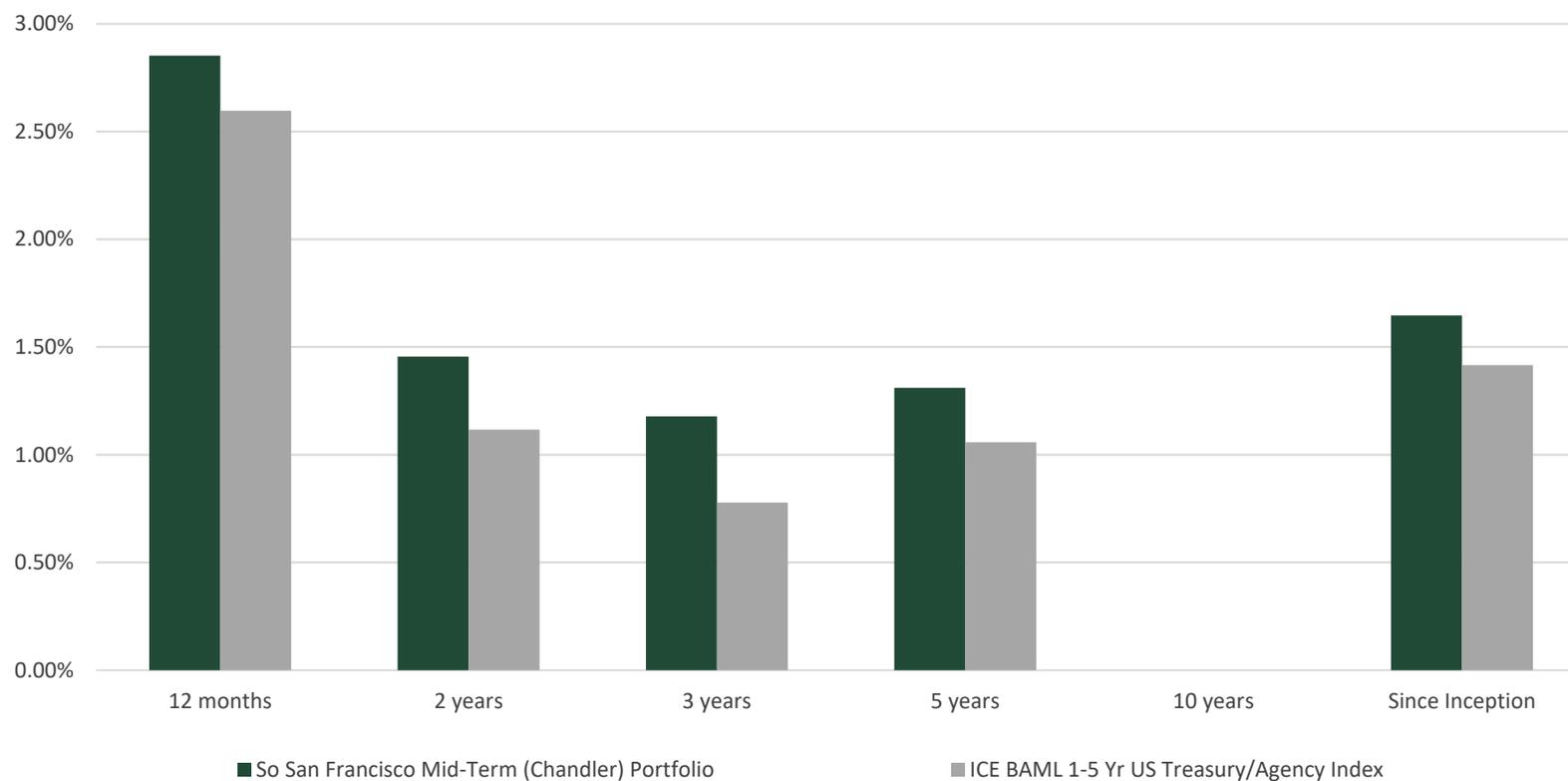


# Investment Performance

As of February 28, 2019

## So San Francisco Mid-Term (Chandler) Portfolio

Total Rate of Return Annualized Since Inception 03/31/2009



<b>TOTAL RATE OF RETURN</b>	<i>Annualized</i>						
	<b>3 months</b>	<b>12 months</b>	<b>2 years</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>	<b>Since Inception</b>
So San Francisco Mid-Term (Chandler) Portfolio	1.63%	2.85%	1.46%	1.18%	1.31%	N/A	1.65%
ICE BAML 1-5 Yr US Treasury/Agency Index	1.46%	2.60%	1.12%	0.78%	1.06%	N/A	1.42%

Total rate of return: A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains and losses in the portfolio.



# Important Disclosures

*As of February 28, 2019*

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Fixed income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

Ratings information have been provided by Moody's, S&P and Fitch through data feeds we believe to be reliable as of the date of this statement, however we cannot guarantee its accuracy.

Security level ratings for U.S. Agency issued mortgage-backed securities ("MBS") reflect the issuer rating because the securities themselves are not rated. The issuing U.S. Agency guarantees the full and timely payment of both principal and interest and carries a AA+/Aaa/AAA by S&P, Moody's and Fitch respectively.



## **ICE BAML 6-Month US Treasury Bill Index**

*The ICE BAML US 6-Month Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. (Index: G002. Please visit [www.mlindex.ml.com](http://www.mlindex.ml.com) for more information)*

## **ICE BAML 1-5 Yr US Treasury/Agency Index**

*The ICE BAML 1-5 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than five years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies. (Index: GVA0. Please visit [www.mlindex.ml.com](http://www.mlindex.ml.com) for more information)*

## **ICE BAML 1-3 Yr US Treasury/Agency Index**

*The ICE BAML 1-3 Year US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and nonsubordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). Qualifying securities must have at least one year remaining term to final maturity and less than three years remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies. (Index: G1A0. Please visit [www.mlindex.ml.com](http://www.mlindex.ml.com) for more information)*