



Tulare County Board of Supervisors

Review of April 1, 2019 Administration Report

Millennium Fund Investment Program

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Millennium Fund Background and Objectives

- ◆ In 1999, the County issued \$45 million of taxable, variable-rate demand bonds (VRDBs).
 - Endowment to fund public capital improvements.
 - Bonds secured by certain lease payments and County's share of the national tobacco settlement.
- ◆ In 2006, the County refunded the original issue with a private placement.
 - Private placement resulted in significant savings
 - Current borrowing rate: *1-month LIBOR + 0.25%* (2.49% as of 8/1/2019)
- ◆ Program's long-term investment objectives:
 - Achieve and maintain parity;
 - Generate an investment return higher than the borrowing rate to grow the Program;
 - Carefully control risk to ensure ongoing success.



Value of Millennium Fund Endowment – Annual Update

- ◆ **April 1, 2019:** value is \$55.7 million
- ◆ **May 2, 2019:** County received annual tobacco payment of \$4.54 million

Tulare County Millennium Fund Program Market Value as of April 1, 2019	
Fund Name	Market Value
Bond Fund	\$681,476
Millennium Fund	\$55,064,006
Tobacco Settlement Fund	\$0
Total	\$55,745,482



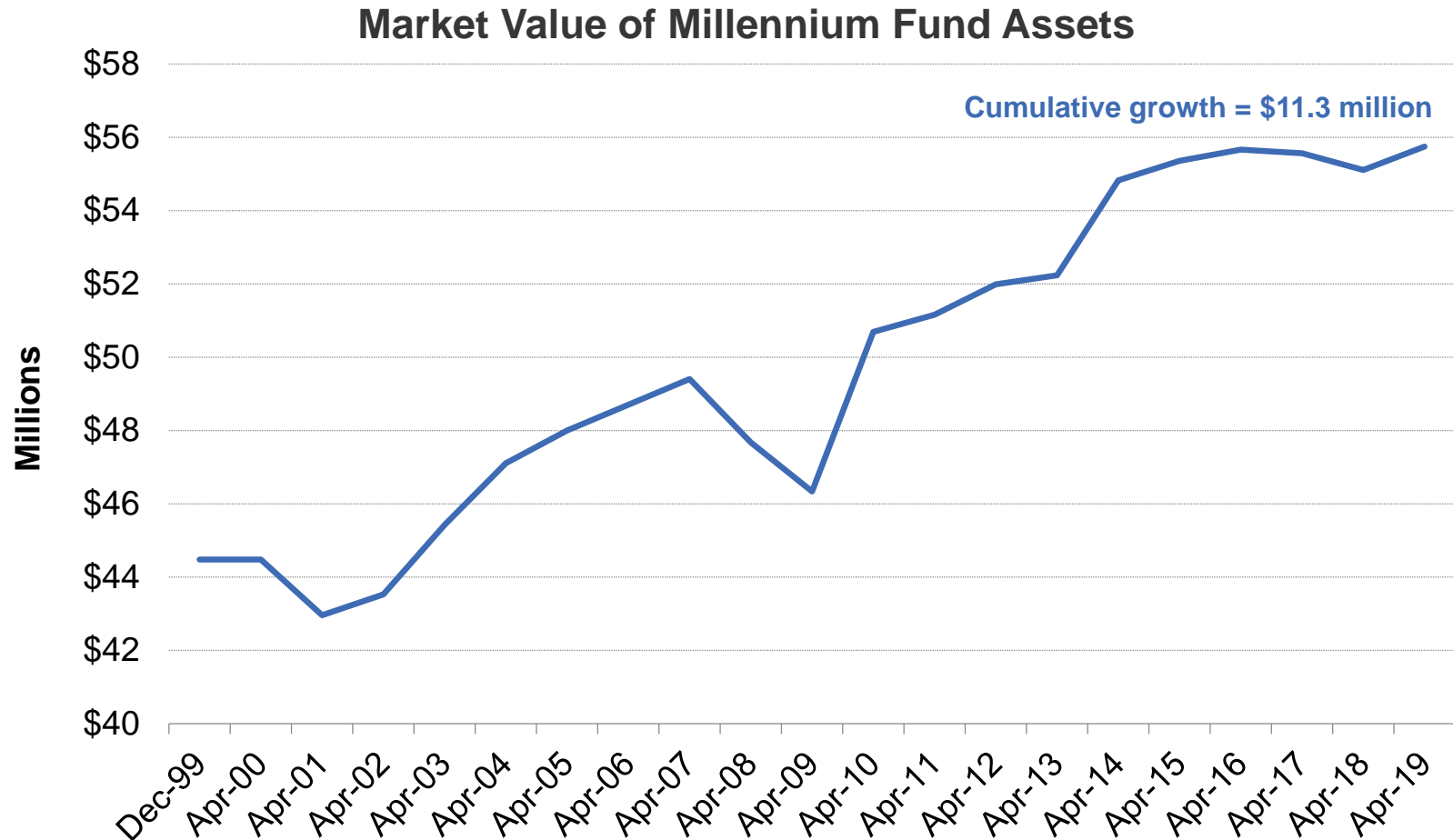
Program's Annual Appropriations

Year	Allowable Appropriations*	Actual Appropriations
2000	\$2,500,000	\$2,500,000
2001	\$2,500,000	\$2,500,000
2002	\$2,500,000	\$2,500,000
2003	\$2,500,000	\$1,223,359
2004	\$2,500,000	\$2,500,000
2005	\$2,500,000	\$2,500,000
2006	\$2,500,000	\$2,500,000
2007	\$4,500,000	\$4,500,000
2008	\$3,500,000	\$3,500,000
2009	\$3,500,000	\$2,500,000
2010	\$3,500,000	\$3,000,000
2011	\$3,500,000	\$2,500,000
2012	\$3,500,000	\$3,000,000
2013	\$3,500,000	\$2,500,000
2014	\$3,500,000	\$2,500,000
2015	\$3,500,000	\$2,500,000
2016	\$3,500,000	\$3,500,000
2017	\$3,500,000	\$3,500,000
2018	\$3,500,000	\$3,500,000
Total		\$53,223,359

* The County has the option to withdraw an amount equal to the lesser of \$3.5 million or the amount by which the aggregate market value of assets exceeds the outstanding principal amount of the bonds



Market Value Growth



Millennium Fund Program market value of cash and investments as of April 1.

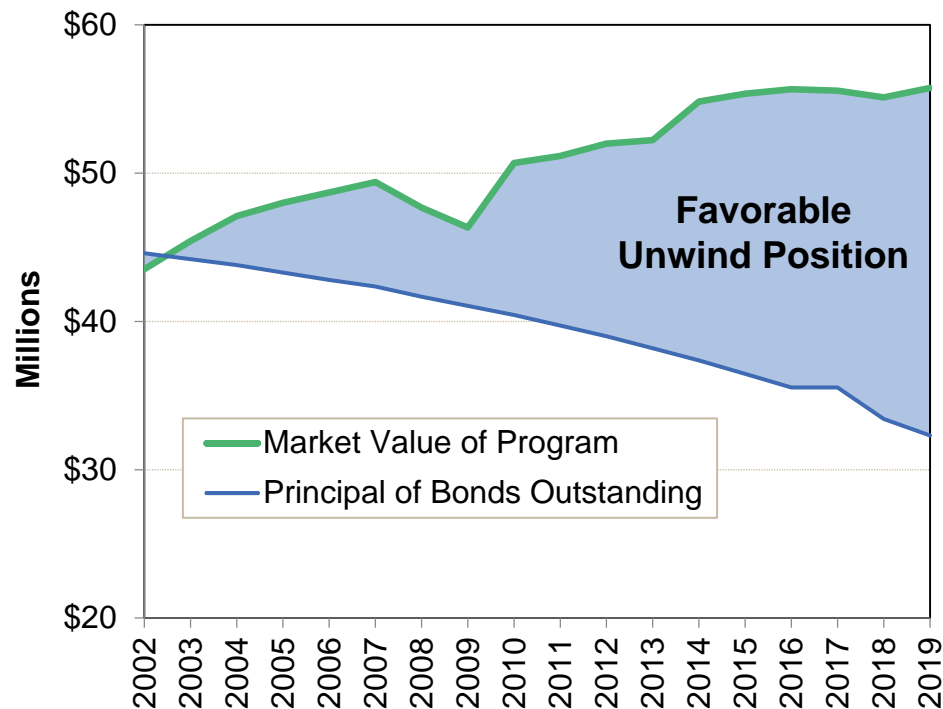


Program's Favorable Unwind Position Continues to Increase

- ◆ Unwind position* improved \$1.7 million during fiscal year 2018-19 to \$23.4 million.

Market Value of Program vs. Outstanding Principal

April 2002 – April 2019

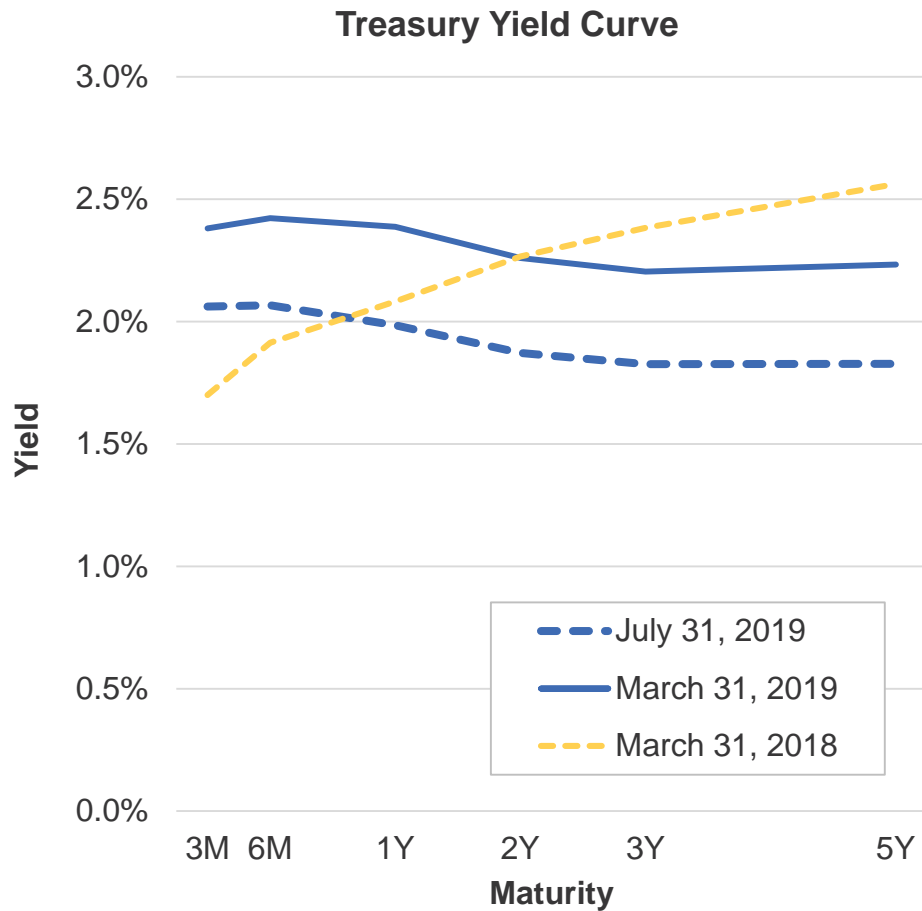


Unwind Position as of April 1 (\$ in millions)		
	2019	2018
Market Value	\$55.7	\$55.1
Bonds Outstanding	\$32.3	\$33.4
Favorable Unwind Position	+ \$23.4	+ \$21.7

*Unwind represents amount of proceeds remaining if the Program were collapsed and the Bonds completely paid off. Excludes costs associated with collapsing the Program.



Yield Curve Flattened in Fiscal Year 2018-19



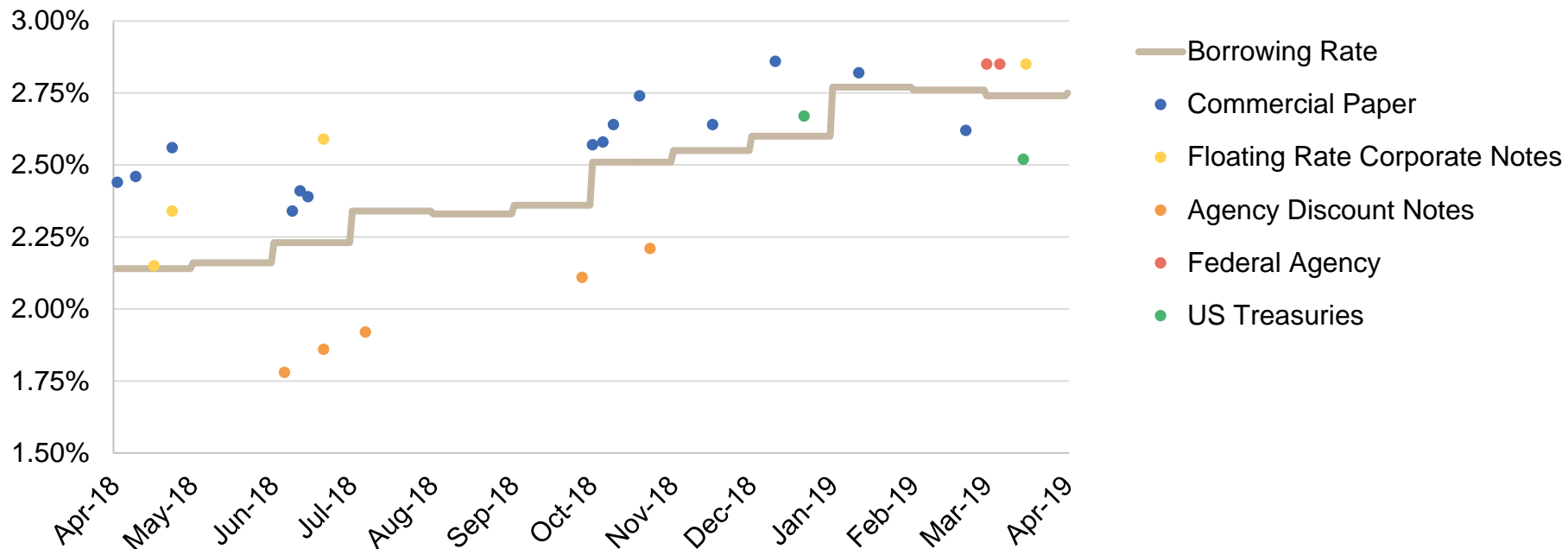
	3/31/19	3/31/18	Year-over-Year Change
3-month	2.38%	1.70%	+0.68%
6-month	2.42%	1.91%	+0.51%
1-year	2.39%	2.08%	+0.31%
2-year	2.26%	2.27%	-0.01%
3-year	2.20%	2.38%	-0.18%
5-year	2.23%	2.56%	-0.33%



Portfolio Strategy – Year in Review

- PFM seeks to purchase high quality investments with yields at or above the borrowing rate, while simultaneously mitigating interest rate risk.
- In the current environment, the security types that have best helped to meet this goal are floating rate corporate notes, commercial paper, and some federal agency securities.

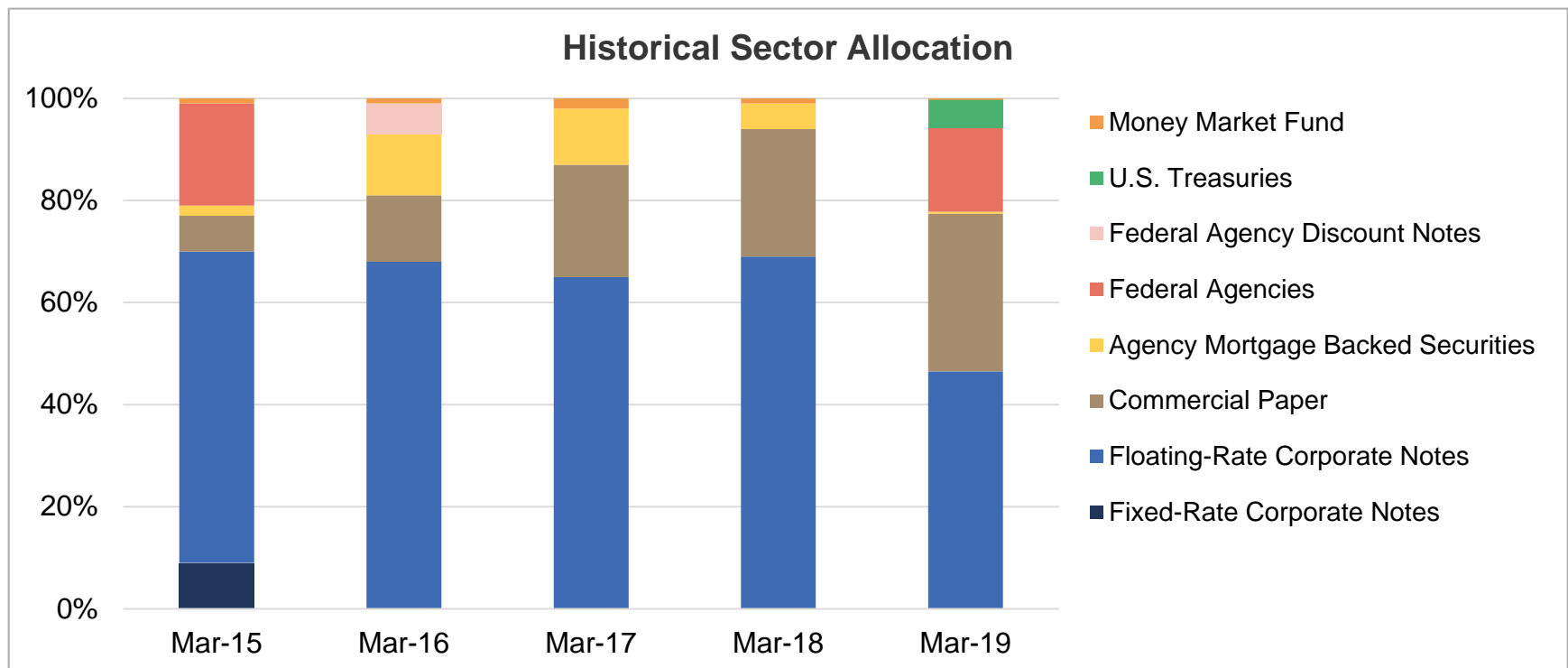
**Securities Purchased During the Year Ended April 1, 2019,
Relative to the Borrowing Rate of the Bonds**





Sector Allocation Reflects Careful Security Selection and Risk Management

- ◆ Since 2015, a period when rates were rising, PFM has emphasized the use of floating rate corporate notes and shorter-term commercial paper.
 - Floating-rate corporate securities lock in incremental yields over the borrowing rate
 - Shorter-term commercial paper offers high yields while limiting interest rate risk





Portfolio Return Exceeds Borrowing Cost

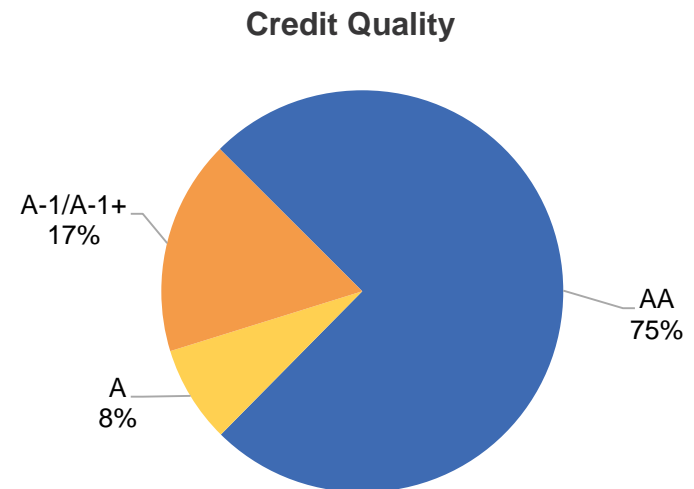
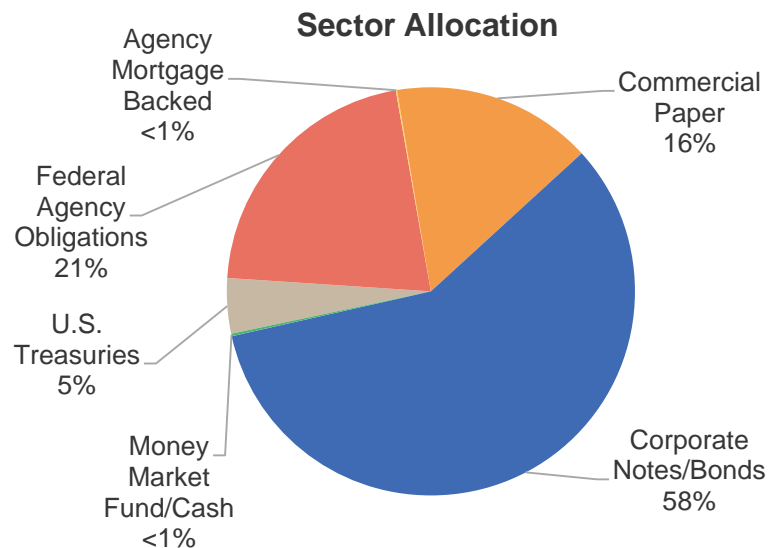
- The Fed raised short-term rates throughout 2018, which increased borrowing costs.
 - PFM's strategy was designed to keep pace with any rate increases.
 - The rate environment has changed dramatically in 2019, but the strategy goals remain the same.

Investment Results Since Inception December 17, 1999 – April 1, 2019	
Average Investment Return	2.46%
Average Borrowing Rate	2.13%
Positive Earnings Spread	+ 0.34%



Millennium Fund Portfolio Characteristics

Portfolio Statistics	
Market Value	\$58,073,595
Average Duration	0.61 years
Average Yield at Market	2.42%



As of July 31, 2019.

Market value includes accrued interest and cash/money market fund balance.

Ratings by Standard & Poor's. Credit quality chart excludes funds invested in the money market fund.



Maturity vs. Duration Distribution

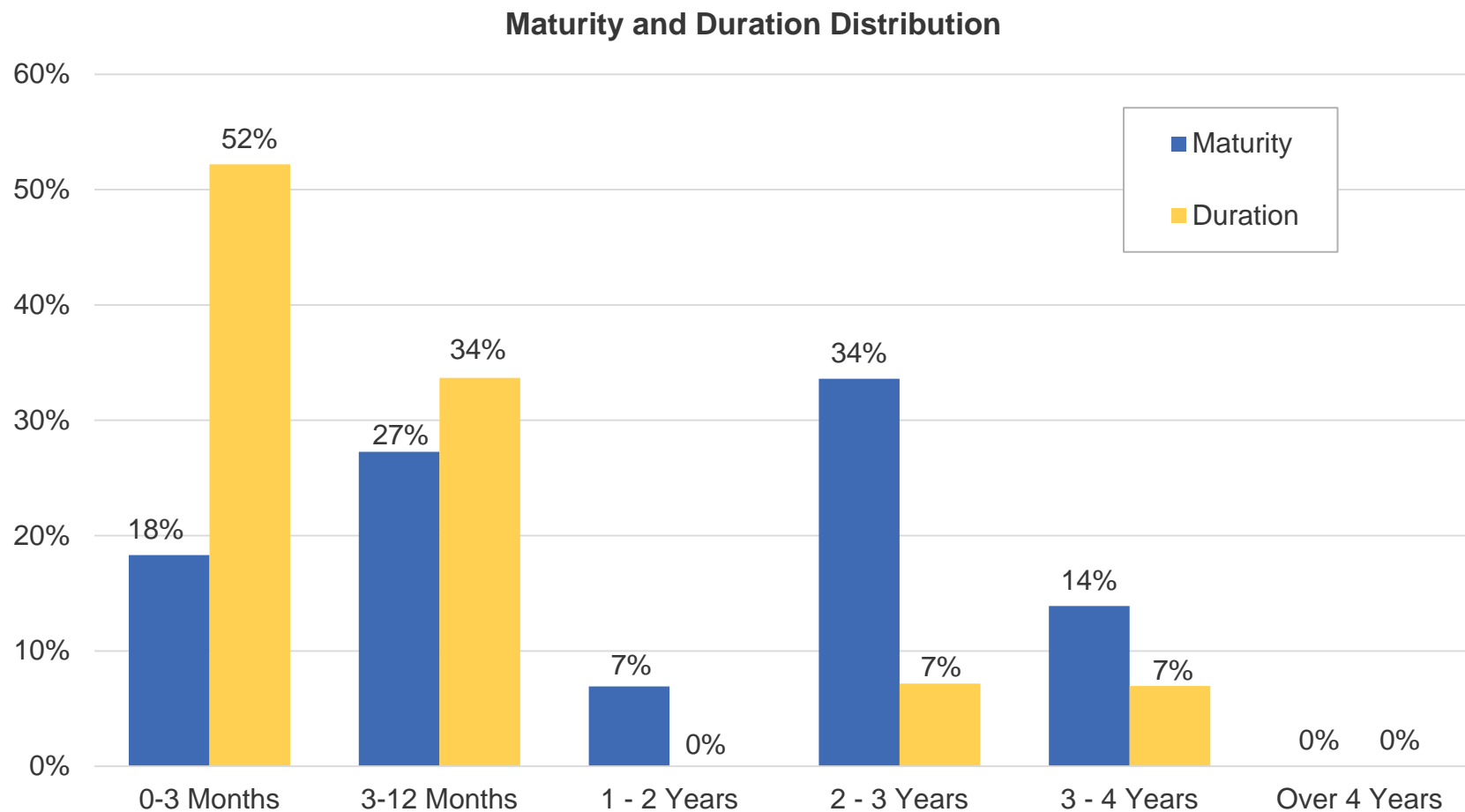


Chart comprises Millennium Fund Portfolio securities as of July 31, 2019. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.



Current Market Themes & Outlook

◆ Current U.S. economic conditions

- Moderate GDP growth
- Strong labor market with low unemployment
- Slowdown in manufacturing and weakening business confidence due to ongoing trade disputes
- Historically low inflation, below the Fed's 2% target

◆ Interest rates on the decline

- At its July meeting, the Federal Reserve cut rates for the first time since December 2008 to a new target range of 2.0%-2.25%; Fed Chair Powell characterized the action as a mid-cycle adjustment
- Developments with trade and global financial conditions will drive future Fed action; market expects at least two more rate cuts in 2019

◆ Outlook

- Falling rates and an inverted yield curve present investment challenges
- Credit instruments, like corporates and commercial paper, continue to offer value
- We will continue to balance the goals of growing Program assets and earning high yields with the need to carefully manage market risks in a period of heightened volatility



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