

September 19, 2023



Treasurer & Tax Collector
CITY AND COUNTY OF SAN FRANCISCO

Treasury Oversight Committee

Presented by: Hubert R White , III CFA CTP, Chief Investment Officer

Tajel Shah, Chief Assistant Treasurer



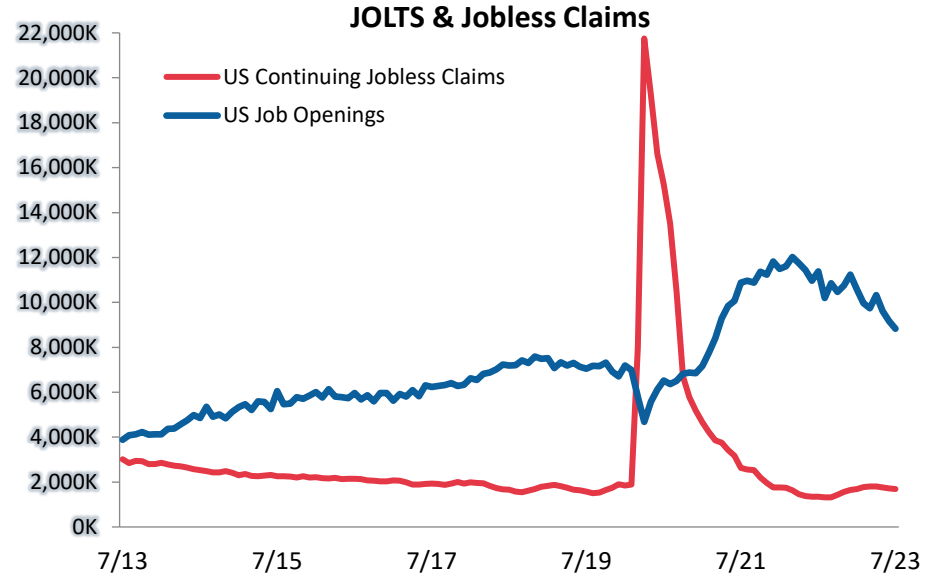
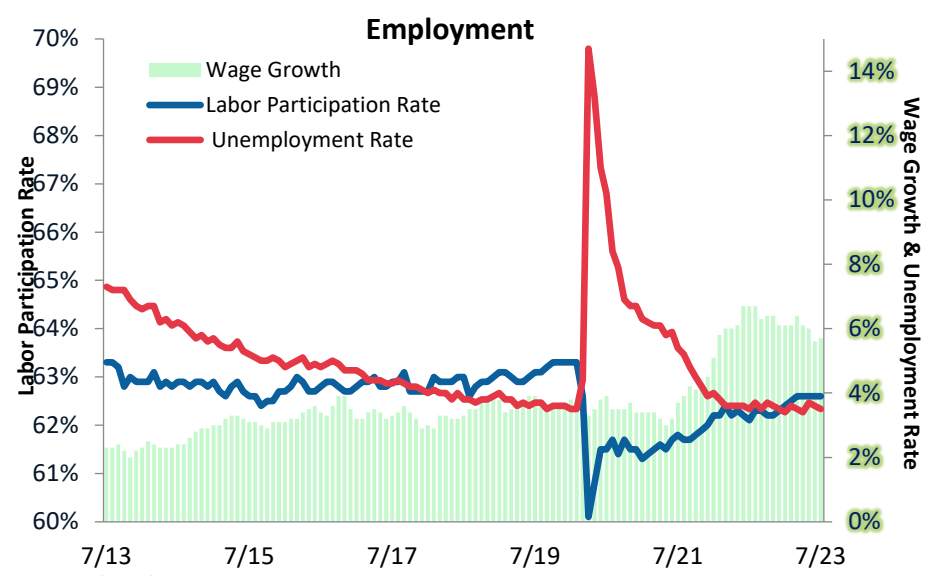
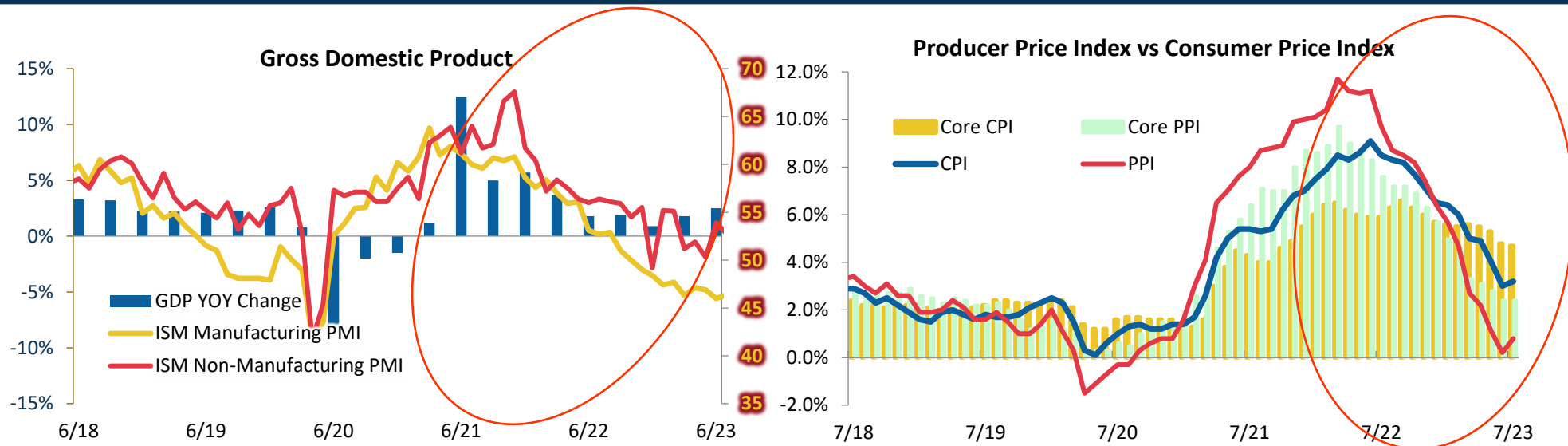
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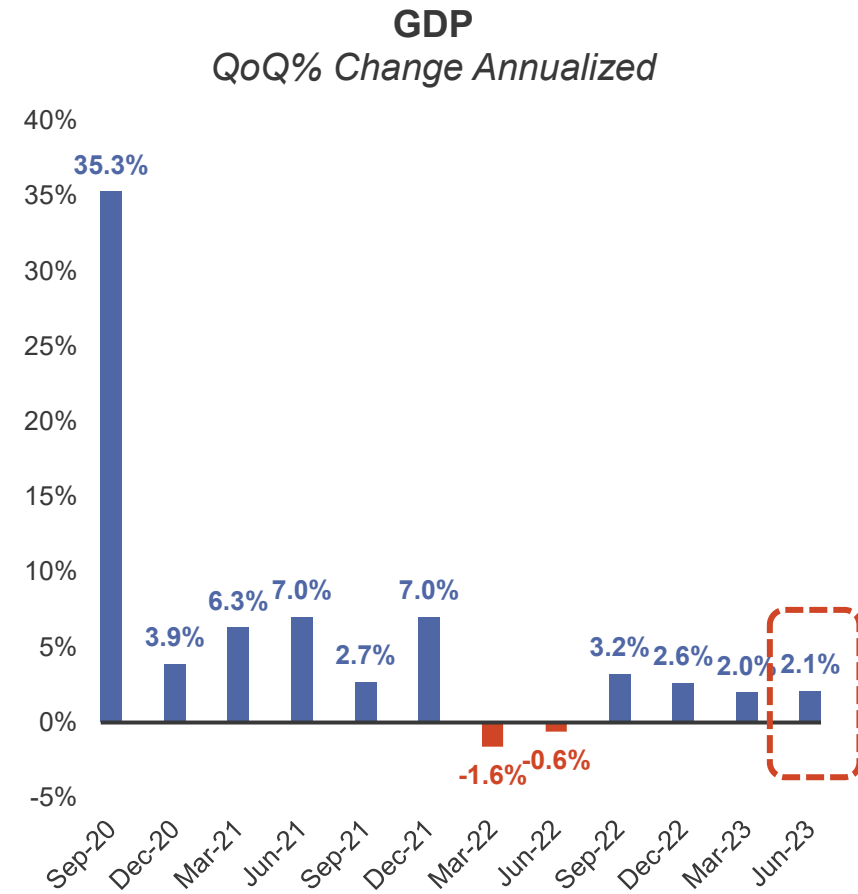
Key Economic Data



Source: Bloomberg

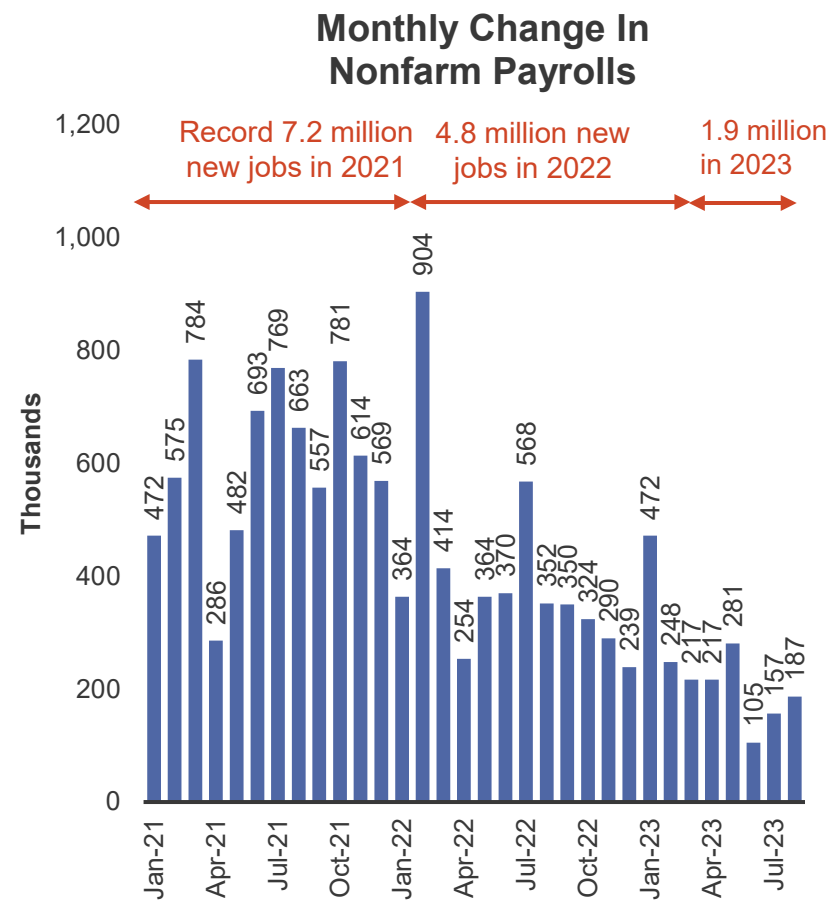
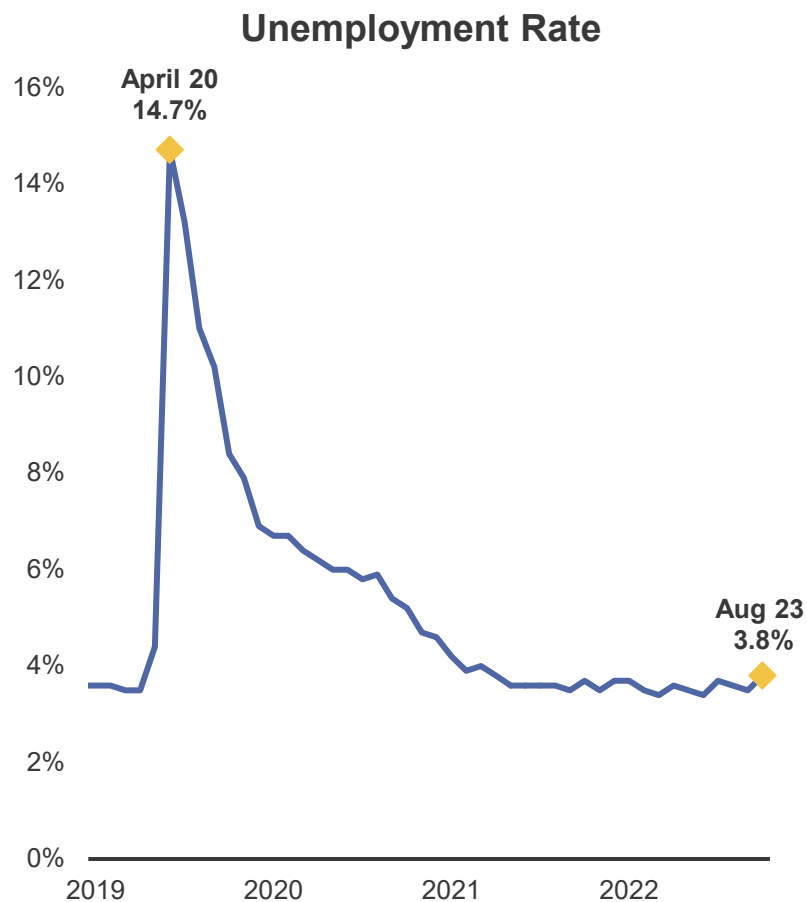
Second-Quarter Growth Rate Cut Slightly on Business Spending

	First Estimate	Second Estimate
	<i>(Percent change from preceding quarter)</i>	
Real GDP	2.40%	2.10%
Personal Consumption	1.12%	1.14%
Fixed Investment	0.83%	0.66%
Net Export	-0.14%	-0.22%
Government Consumption	0.45%	0.58%
Private Inventories	0.14%	-0.09%



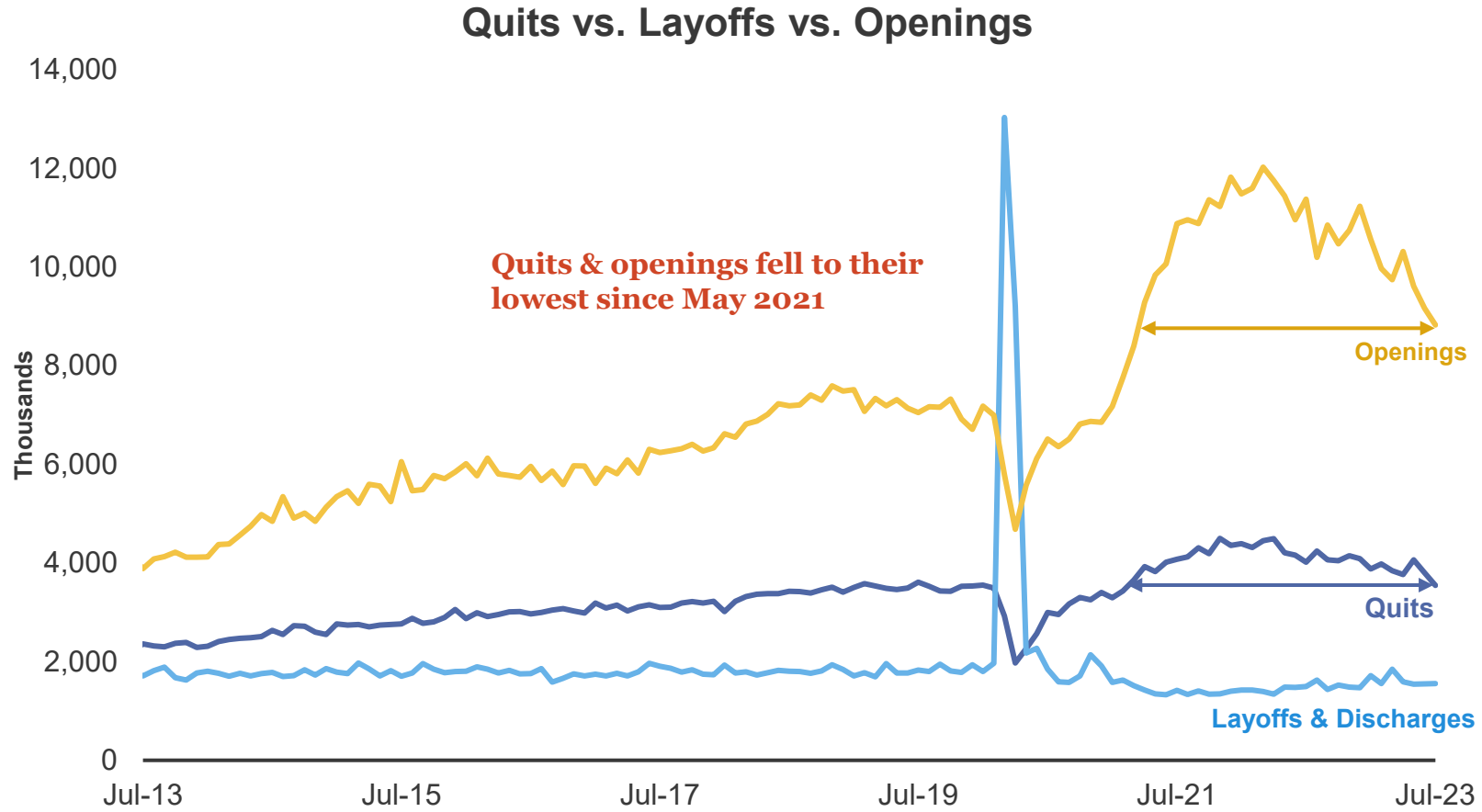
Source: Bloomberg, Bureau of Economic Analysis, as of June 2023.

Payrolls Came in Higher than Forecast While the Unemployment Rate Climbed



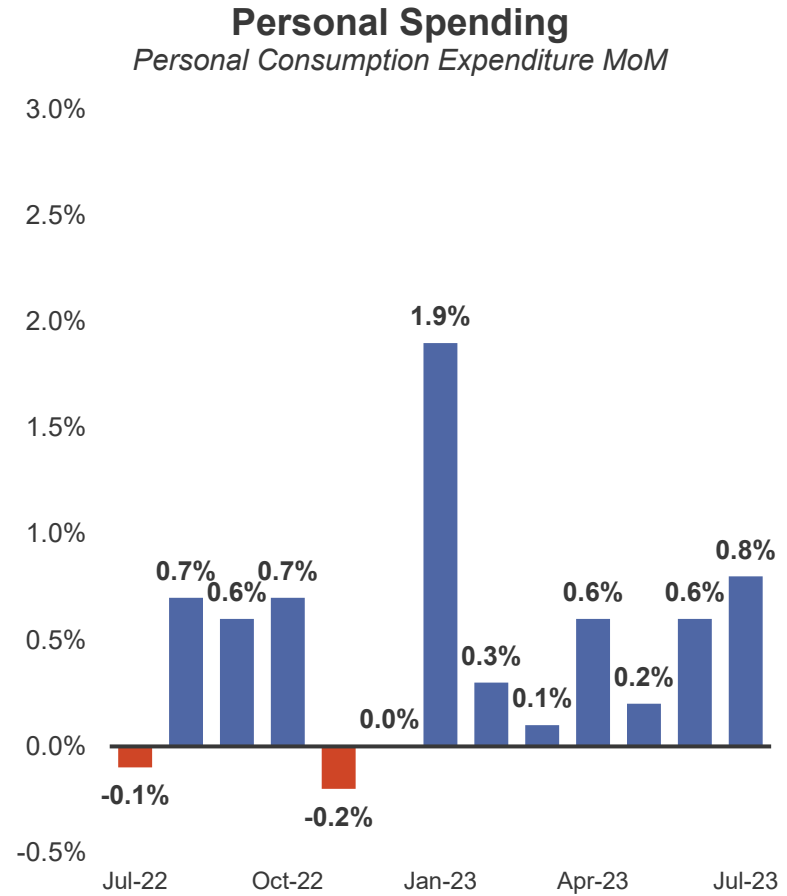
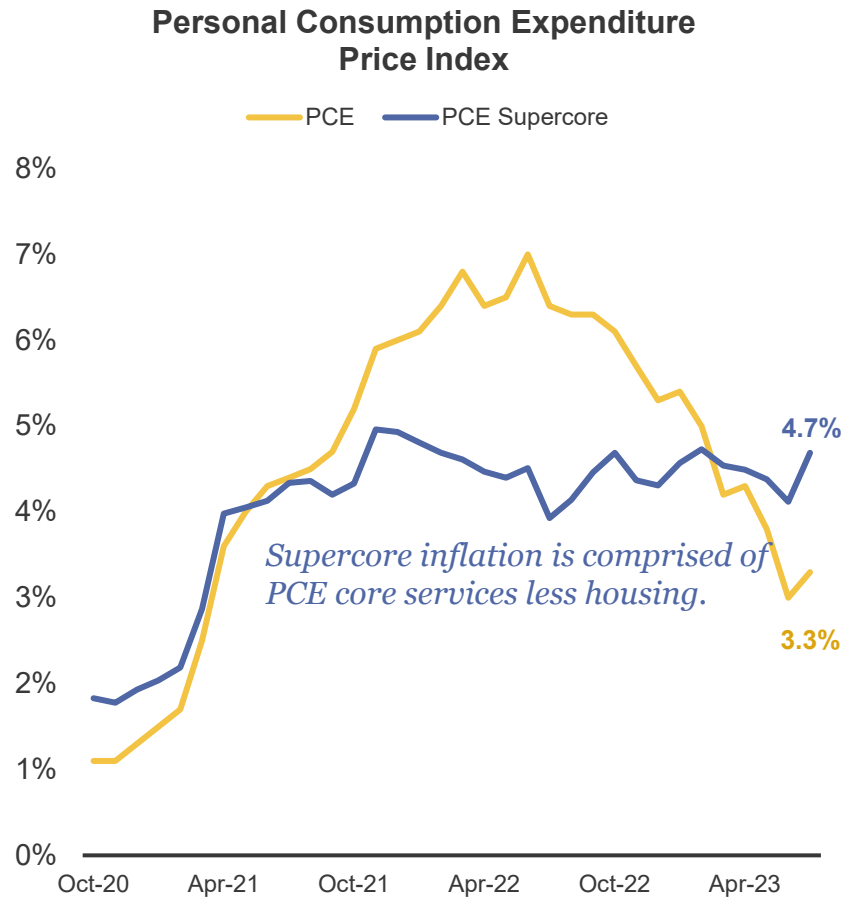
Source: Bloomberg, as of August 2023. Data is seasonally adjusted.

Job Openings, Driven By Fewer Quits, Fell in July



Source: FRED Economic Data; as of July 2023.

Fed's Preferred Gauge of Inflation Ticked Up But Spending Is Still Booming

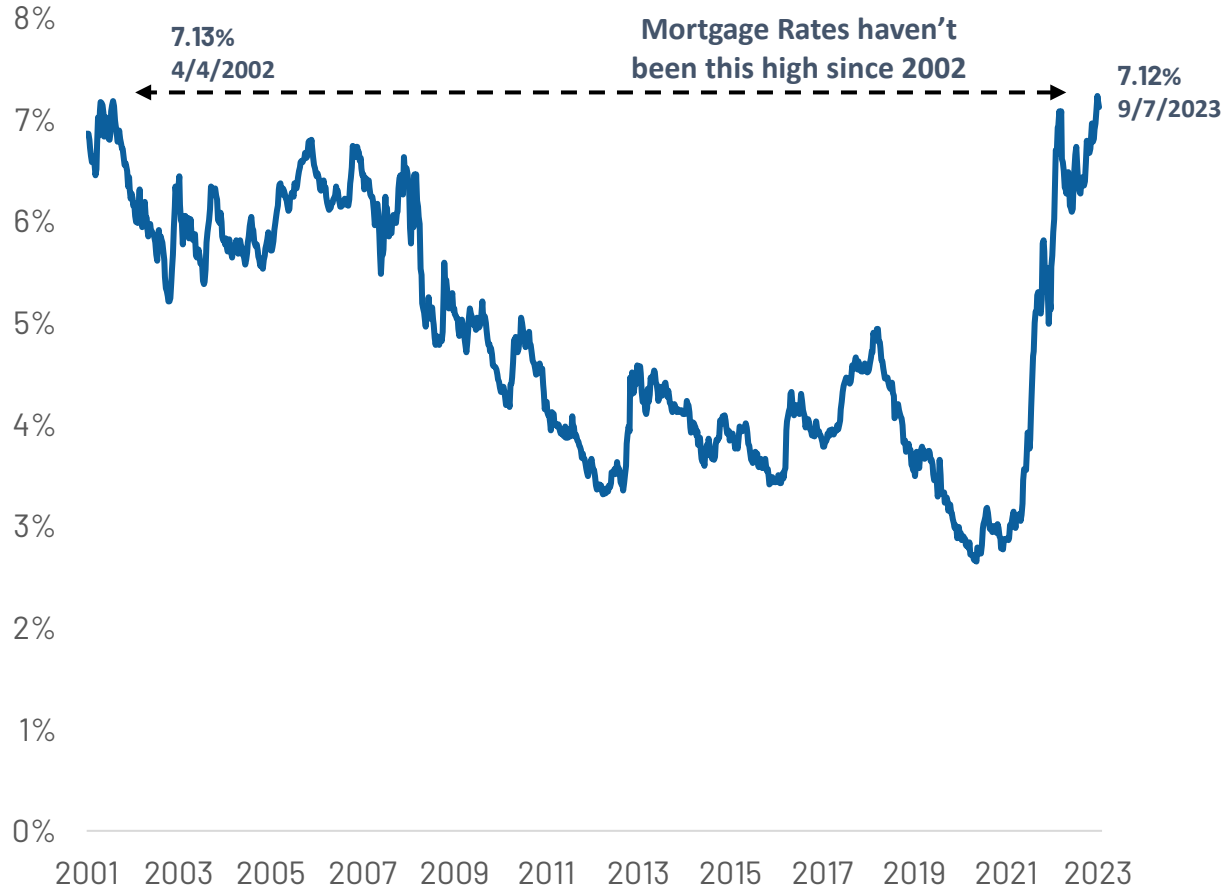


Source: Bloomberg, Federal Reserve, and U.S. Bureau of Economic Analysis as of July 2023.

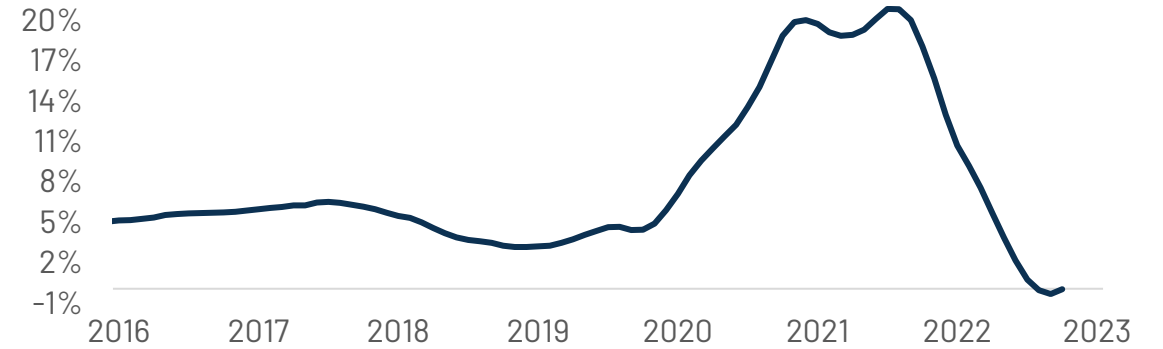


The Impact of Higher Rates on the Housing Market

Freddie Mac 30-Year U.S. Mortgage Rates



National Home Price Index (YoY)



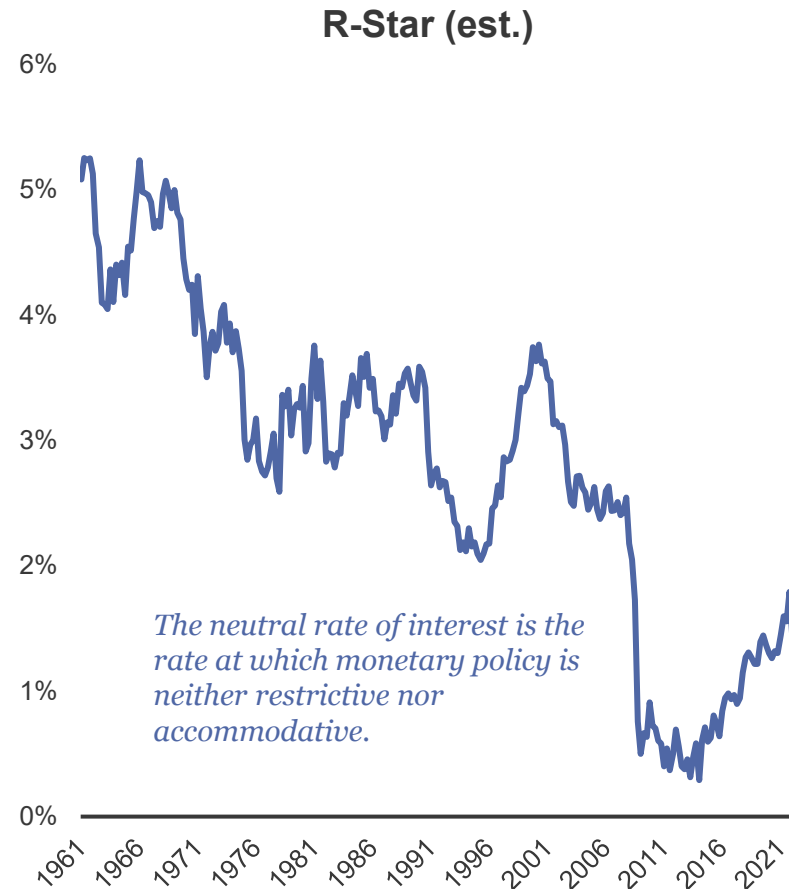
New Home Sales (SAAR)



Source: Bloomberg, Freddie Mac Commitment Rates as of 9/4/2023.

According to the Jackson Hole Summit, Interest Rates Aren't Coming Down Anytime Soon

- **Overview:** Powell acknowledged the economic backdrop is more favorable now than it was a year ago, but he made it clear that the central bank is prepared to raise interest rates further if needed, noting that a resilient economy comes with risks that inflation could reaccelerate.
 - “At upcoming meetings, we will assess our progress based on the totality of the data and the evolving outlook and risks,” Powell said. “Based on this assessment, we will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data.”
 - The Fed chair indicated central bankers will be watching the data to decide their next steps, adding that strong growth and a resurgence of strength in the labor market could require a stronger response. “Additional evidence of persistently above-trend growth could put further progress on inflation at risk and could warrant further tightening of monetary policy,” he said.
- **Inflation target:** “Two percent is and will remain our inflation target,” the Fed chair said.
- **Interest rates:** Interest rates are now high enough to be “restrictive,” meaning they are weighing on growth and inflation. Real interest rates “are now positive and well above mainstream estimates of the neutral policy rate,” Powell said, adding that “we cannot identify with certainty the neutral rate of interest.”





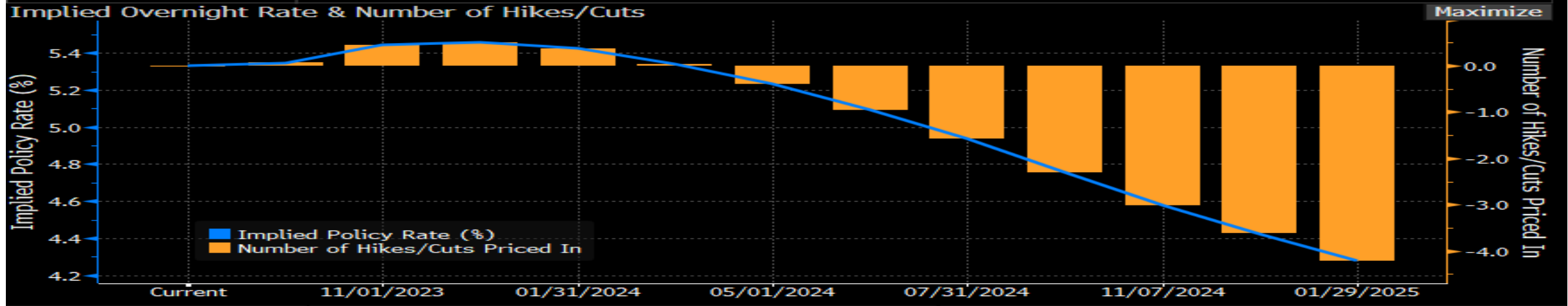
Interest Rate Probability as 6/13/2023

Region: United States » Instrument: Fed Funds Futures »

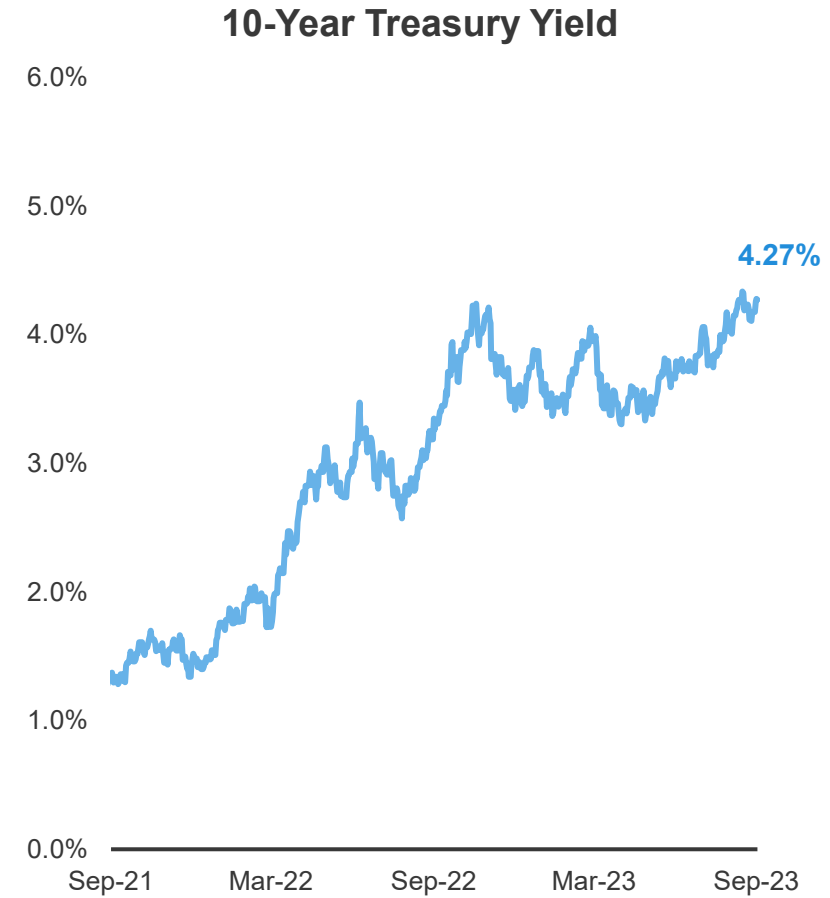
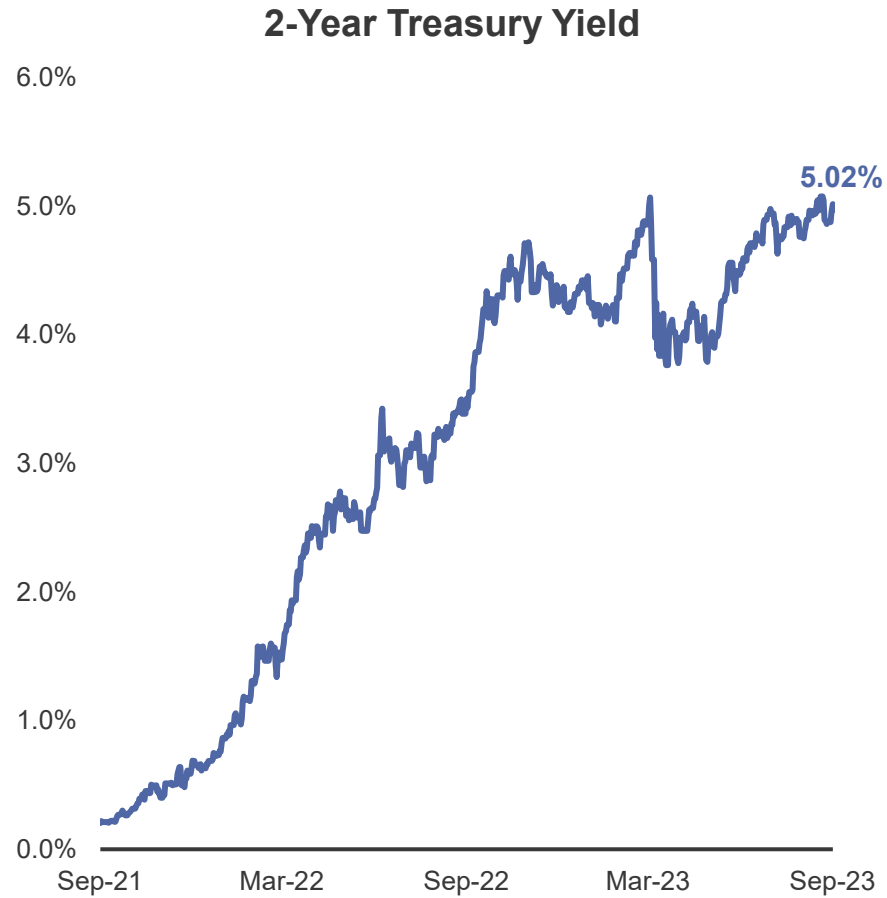
Target Rate 5.50 Pricing Date 09/11/2023

Effective Rate 5.33 Cur. Imp. O/N Rate 5.331

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
09/20/2023	+0.067	+6.8%	+0.017	5.347	0.250
11/01/2023	+0.440	+37.2%	+0.110	5.441	0.250
12/13/2023	+0.505	+6.5%	+0.126	5.457	0.250
01/31/2024	+0.368	-13.7%	+0.092	5.423	0.250
03/20/2024	+0.033	-33.4%	+0.008	5.339	0.250
05/01/2024	-0.396	-43.0%	-0.099	5.232	0.250
06/12/2024	-0.955	-55.8%	-0.239	5.092	0.250
07/31/2024	-1.573	-61.8%	-0.393	4.938	0.250
09/18/2024	-2.300	-72.8%	-0.575	4.756	0.250
11/07/2024	-3.007	-70.7%	-0.752	4.579	0.250
12/18/2024	-3.621	-61.4%	-0.905	4.425	0.250
01/29/2025	-4.213	-59.2%	-1.053	4.278	0.250

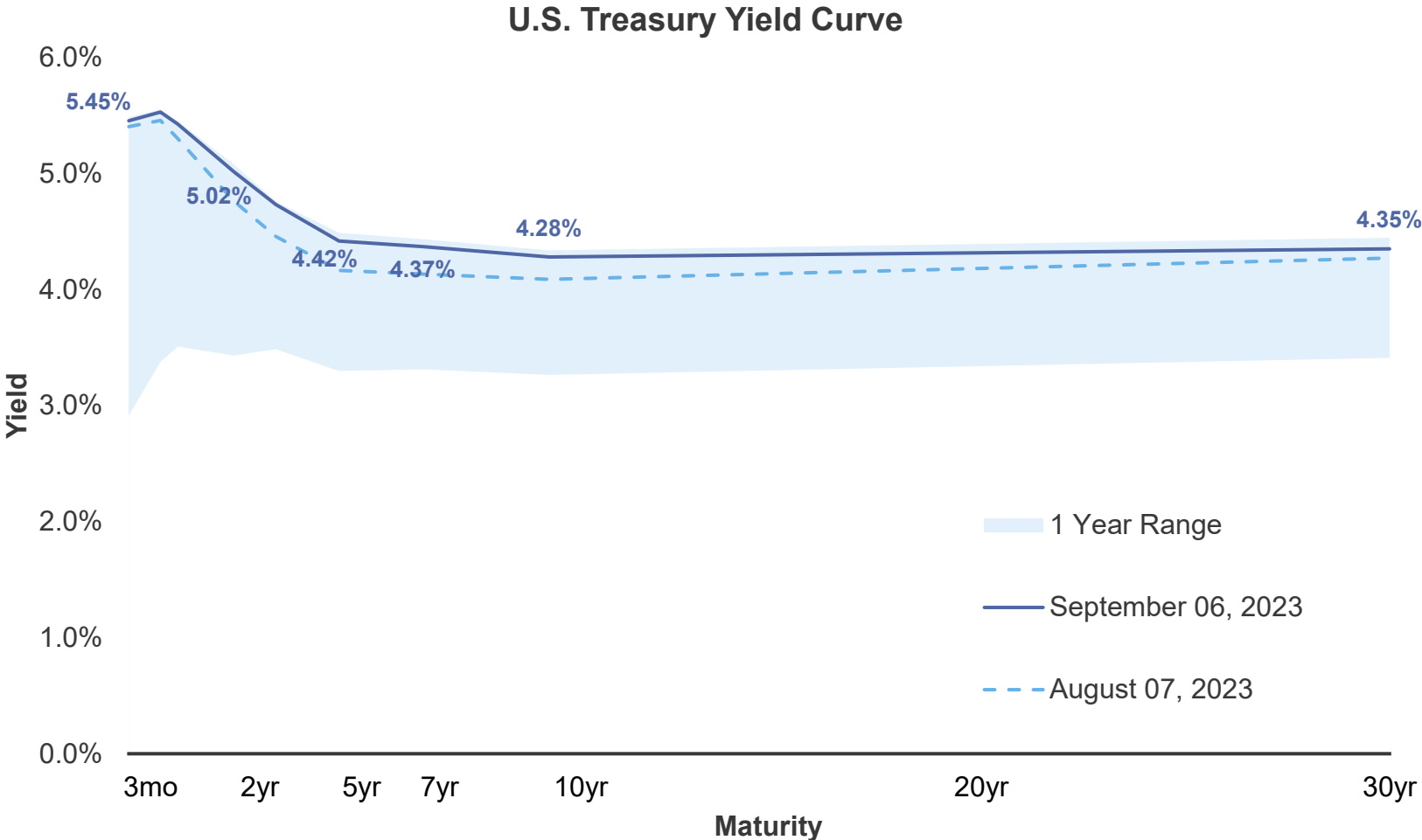


2-Year Treasury Yield Bouncing Around 5%



Source: Bloomberg, as of 09/06/2023.

Bond Yields Ticked Up As Investors Focus on Rate Outlook



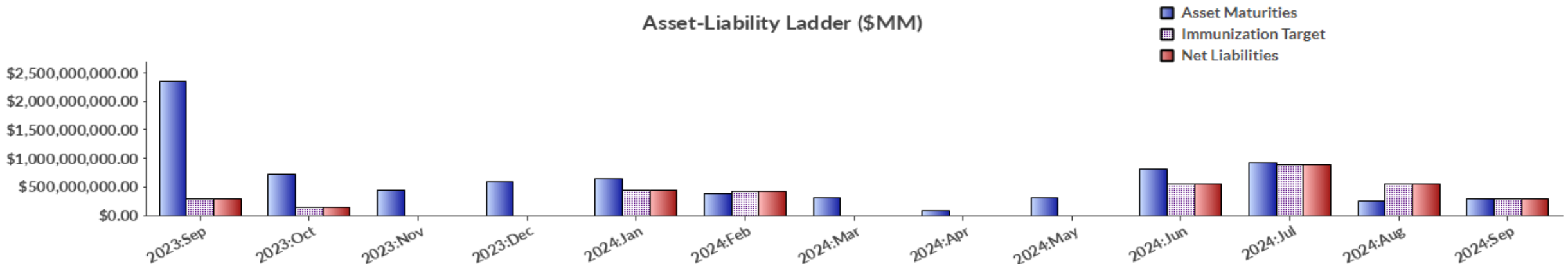
Source: Bloomberg, as of 09/06/2023.





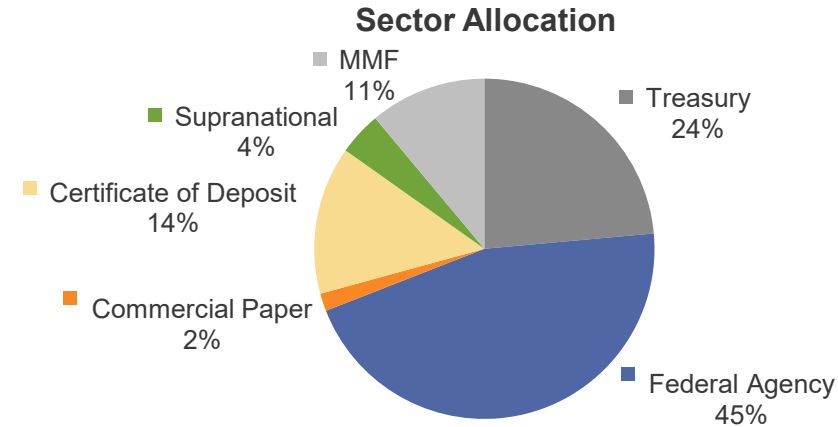
Portfolio Considerations

- Money Market Holdings at \$1,804mm (11.71%).
- Portfolio Duration: 1.16 (September 11, 2023):
- Focus on Managing to the Portfolio's Cashflow Profile
 - Maintaining a portfolio duration consistent with the cashflow profile
 - Focus on net negative cash flow months (Duration Optimization)
 - Purchasing Securities that mature on (or slightly before) a known need – such as Payroll, Debt Service, Capital Projects, etc.; and
 - Emphasis on maintaining our 5-year cash forecast

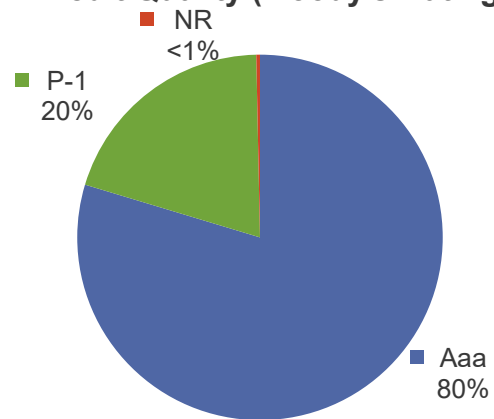


Portfolio Characteristics

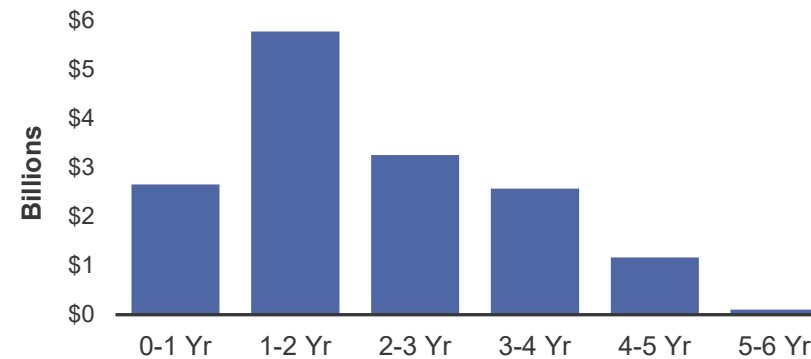
Portfolio Statistics		
	9/6/2023	8/9/2023
Par Amount	\$15.5 bn	\$15.4 bn
Average Duration	1.24 years	1.20 years
Yield to Maturity at Cost	3.12%	3.06%
Yield to Maturity at Market	5.27%	4.92%



Credit Quality (Moody's Ratings)

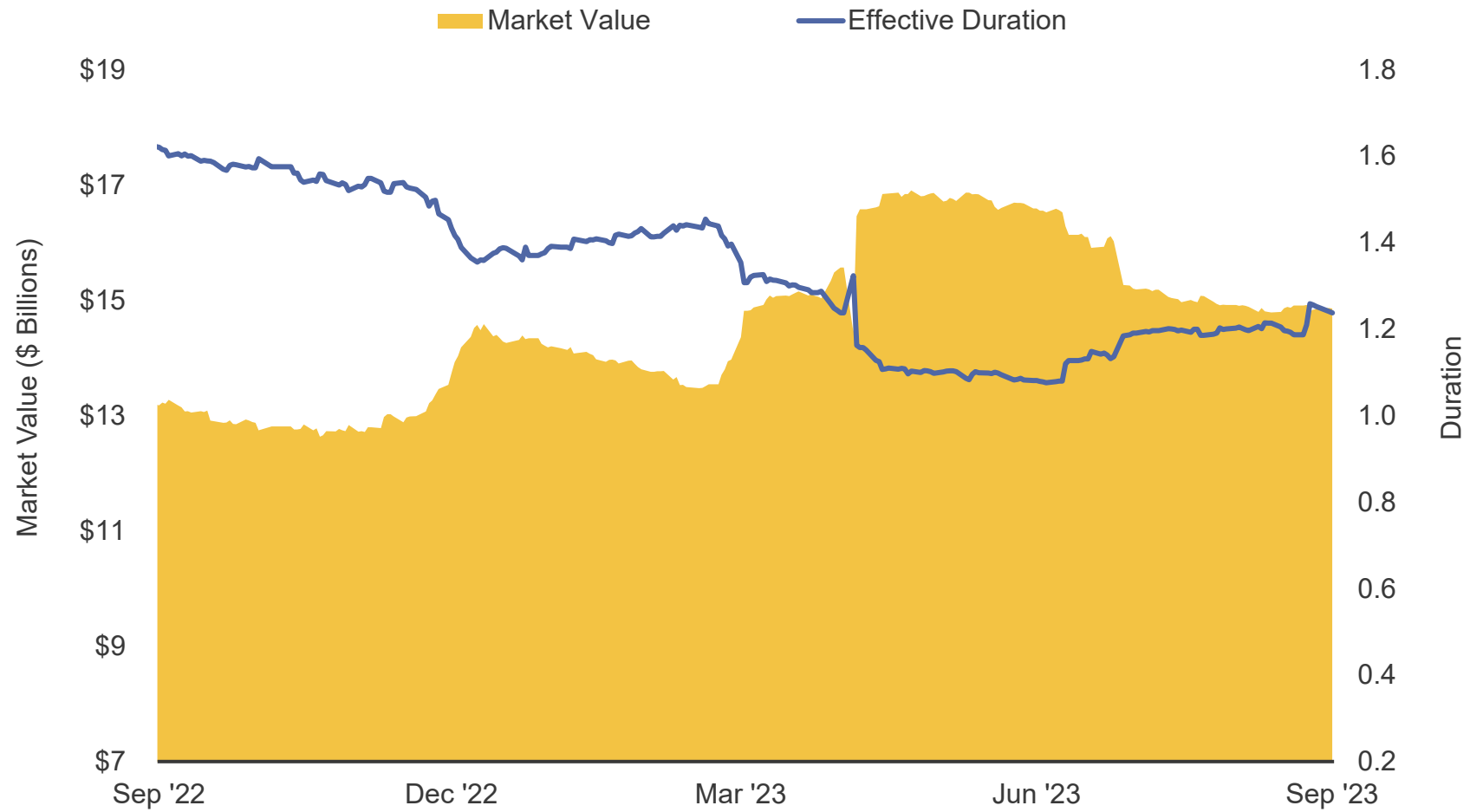


Maturity Distribution

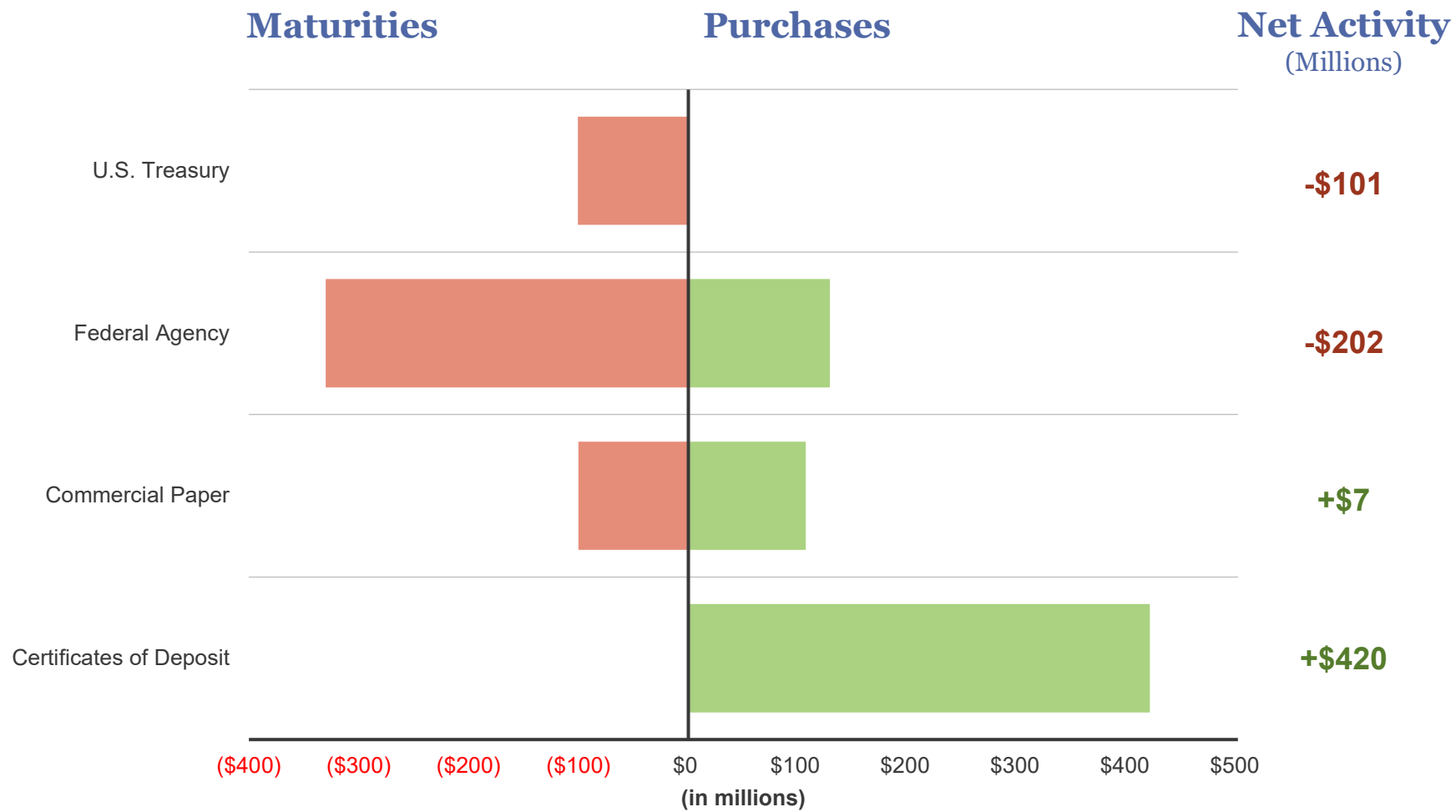


NR (Not Rated) holdings comprise bank CDs. S&P Ratings used if not rated by Moody's.

Historical Portfolio Duration & Market Value

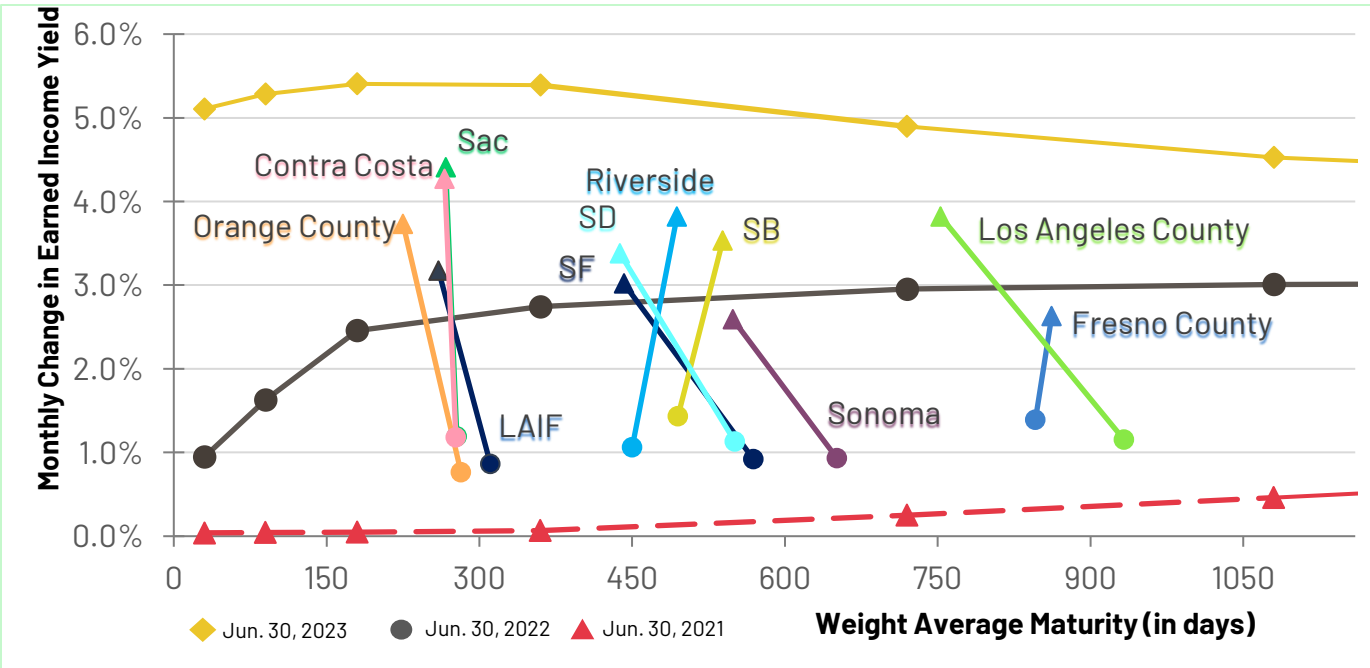


Trade Activity (8/9/2023 – 9/6/2023)



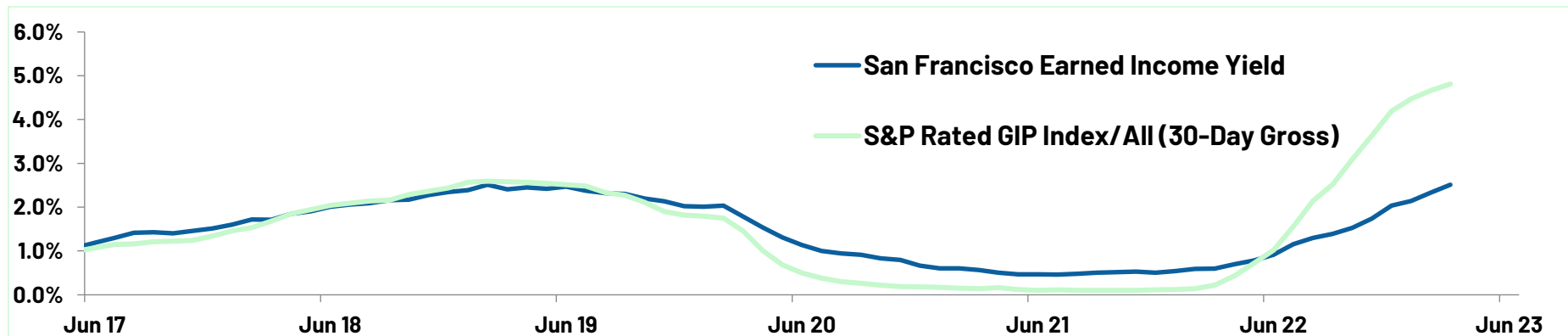


County Pooled Fund Statistics



Name of Fund	Portfolio Size* (\$ mns)
Los Angeles County	54,574.1
LAIF	25,677.3
City and County of San Francisco	16,787.8
San Diego County	16,007.3
San Bernardino County	13,822.5
Riverside County	13,303.7
Fresno County	7,565.1
Sacramento County	7,020.2
Orange County	6,054.9
Contra Costa County	5,758.4
Sonoma County	3,782.2

* as of Jun 30, 2023



Sources: Bloomberg, Sacramento County as of August 9, 2023



Pool Participants Breakdown

As of June 30, 2023

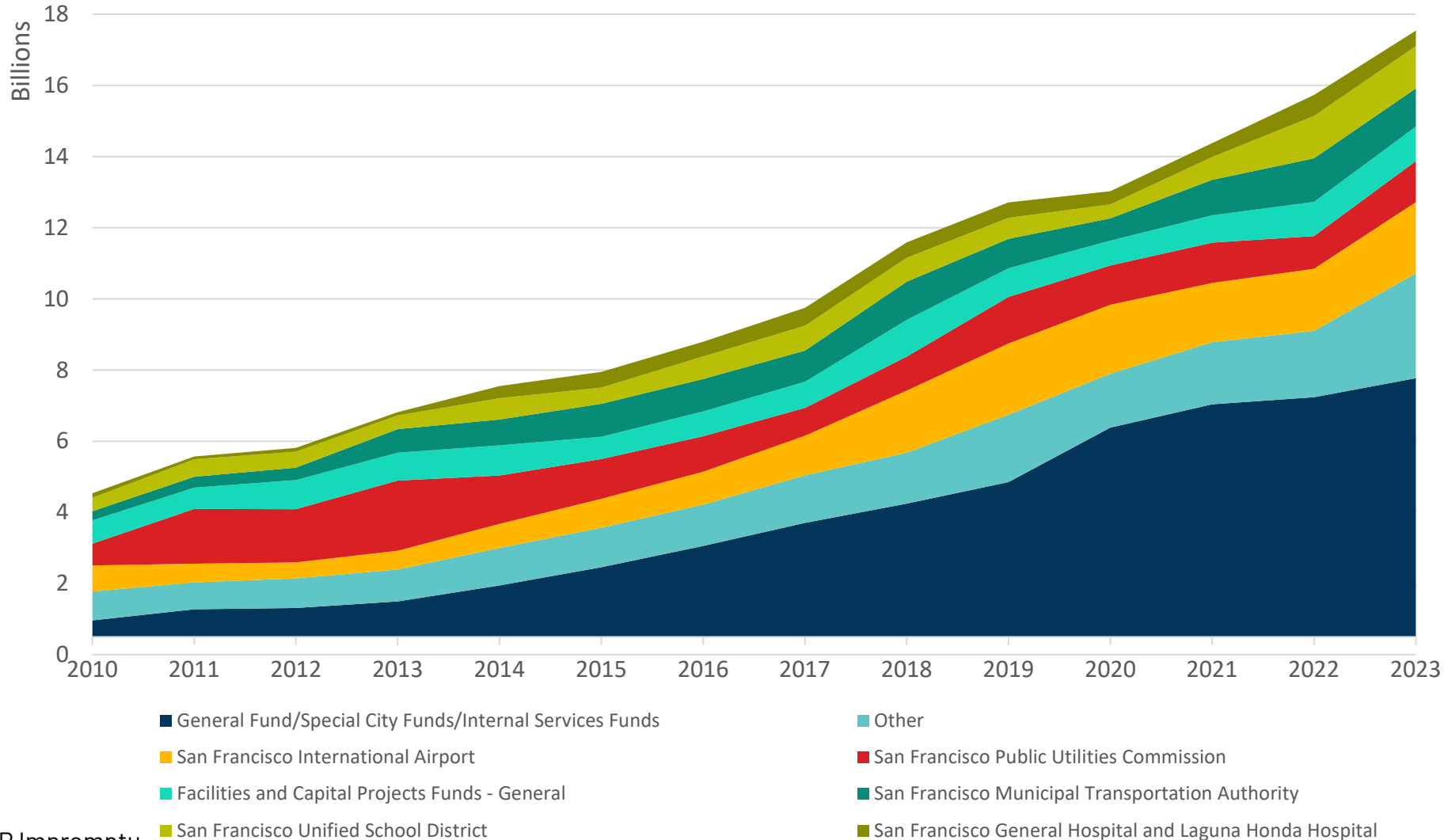
Pool Participant	Fund Balance	Percent of Fund
General Fund/Special City Funds/Internal Services Funds	\$ 7,270,431,634	42.7%
San Francisco International Airport	1,996,896,061	11.7%
Other agencies (incl. Transbay Joint Powers, Trial Courts)	1,585,025,234	9.3%
San Francisco Unified School District	1,188,067,523	7.0%
San Francisco Public Utilities Commission	1,154,848,248	6.8%
San Francisco Municipal Transportation Authority	1,076,811,996	6.3%
Facilities and Capital Projects Funds - General	969,128,462	5.7%
San Francisco Community College District	476,689,880	2.8%
San Francisco General Hospital and Laguna Honda Hospital	436,366,752	2.6%
Port of San Francisco	357,795,235	2.1%
OCII - Successor Agency - former SFRDA	233,641,861	1.4%
Pension and Retiree Health Care Trust Fund	187,444,401	1.1%
San Francisco County Transportation Authority	61,230,588	0.4%
Totals	\$ 17,040,950,460	100.0%

Totals may not add due to rounding



Pool Participant Trends

May 31, 2010 – May 31, 2023



Sources: FSP Impromptu