



Fallbrook Public Utilities District Strategy Discussion

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Overview

- Due to liquidity requirements and other consideration, we have not been actively managing the portfolio. As a result, the portfolio's performance has deviated from the benchmark's performance.
- As the liquidity concerns have largely been resolved, this may be time to begin actively manage the portfolio again.
- To re-implement an active management approach, the portfolio manager will look to bring the portfolio back into alignment with the District's selected benchmark and PFM's current strategy choices.
 - This will primarily involve extending the portfolio's duration from approximately 1.8 years (3/31) to be closer to the benchmark's duration of 2.5 years.
 - Given available funds, the bulk of the initial re-balancing trades can be made with new funds. However, the portfolio manager will execute additional trades based on market opportunities.
 - Initial trades are likely to be made in U.S. Treasury securities as they are more readily available, they will help improve portfolio diversification, and will enable future trades.
 - On an on-going basis, the portfolio manager will continue to execute trades to maintain the portfolio's alignment with the benchmark/strategy.
- The re-establishment of this approach only makes sense if the current approach/benchmark still reflects the District's long-term investment objectives.



2018 Return Comparison

- With interest rising during 2018, shorter duration strategies generally provided higher returns. However, with market conditions changing, this may not be the same in 2019.

2018 Total Returns

Portfolio/Index*	Duration**	Total Return
LAIF	0.53	1.95%
0-3 Year UST Index	1.43	1.70%
1-3 Year UST Index	1.87	1.58%
FPUD Portfolio***	2.03	1.33%
0-5 Year UST Index	2.15	1.61%
FPUD Benchmark***	2.54	1.47%
1-5 Year UST Index	2.62	1.52%

*Source: ICE BofAML Indices from Bloomberg. LAIF returns from www.treasurer.ca.gov/pmia-laif/laif/index.asp.

**Durations, as of December 31, 2018.

*** The portfolio's return is gross of fees. PFM's fee is the higher of an annualized fee of 10 basis points or a minimum fee of \$15,000 per year.

***FPUD's Benchmark is the ICE BofAML 1-5 Year A Rated and Above U.S. Government/Corporate U.S. Issuers Only Index.



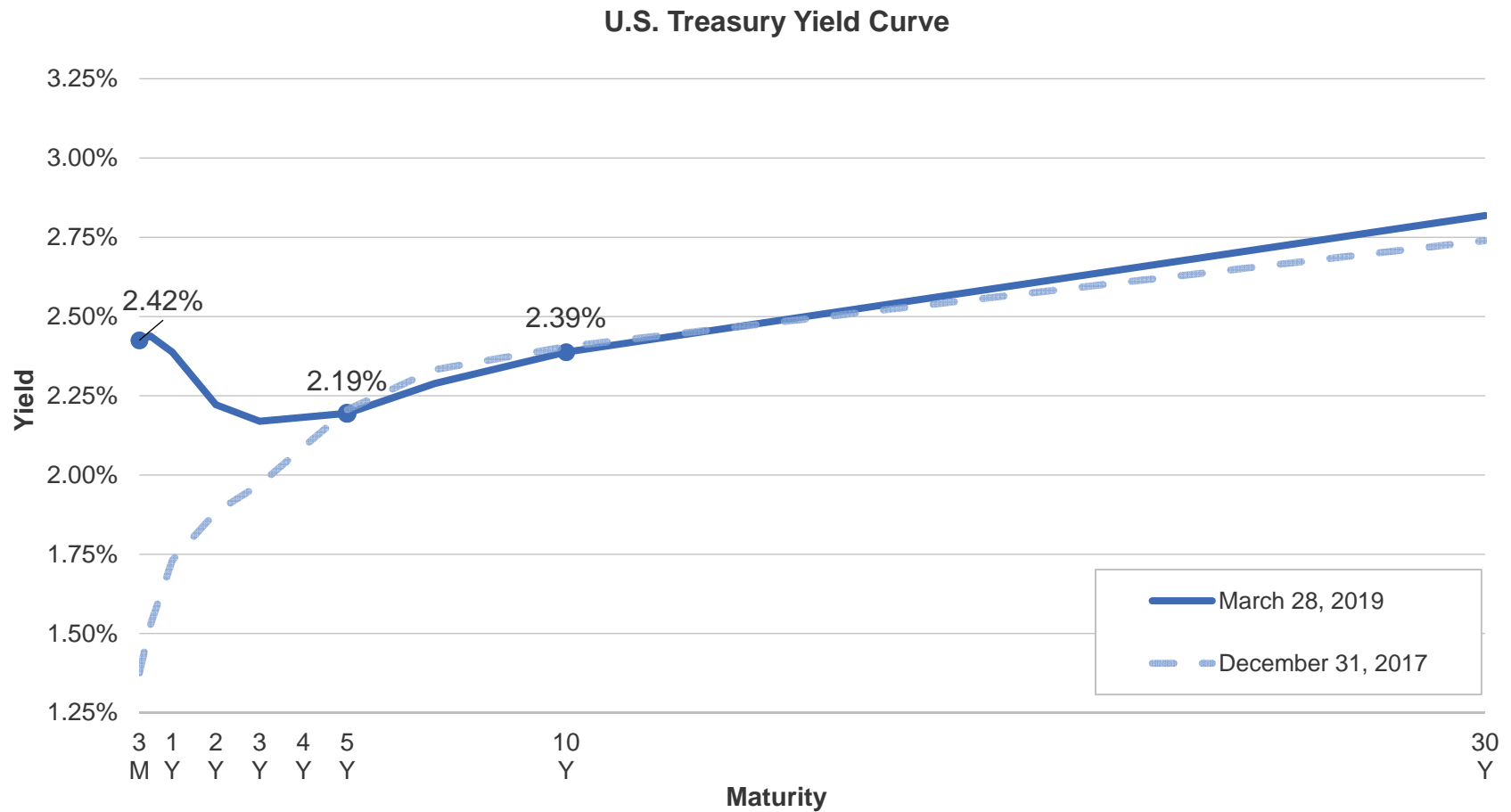
Yields Plunge in Q4; Now Range-Bound Amid Dovish Fed Sentiment



Source: Bloomberg, as of 02/28/19.



U.S. Treasury Yield Curve Inverted

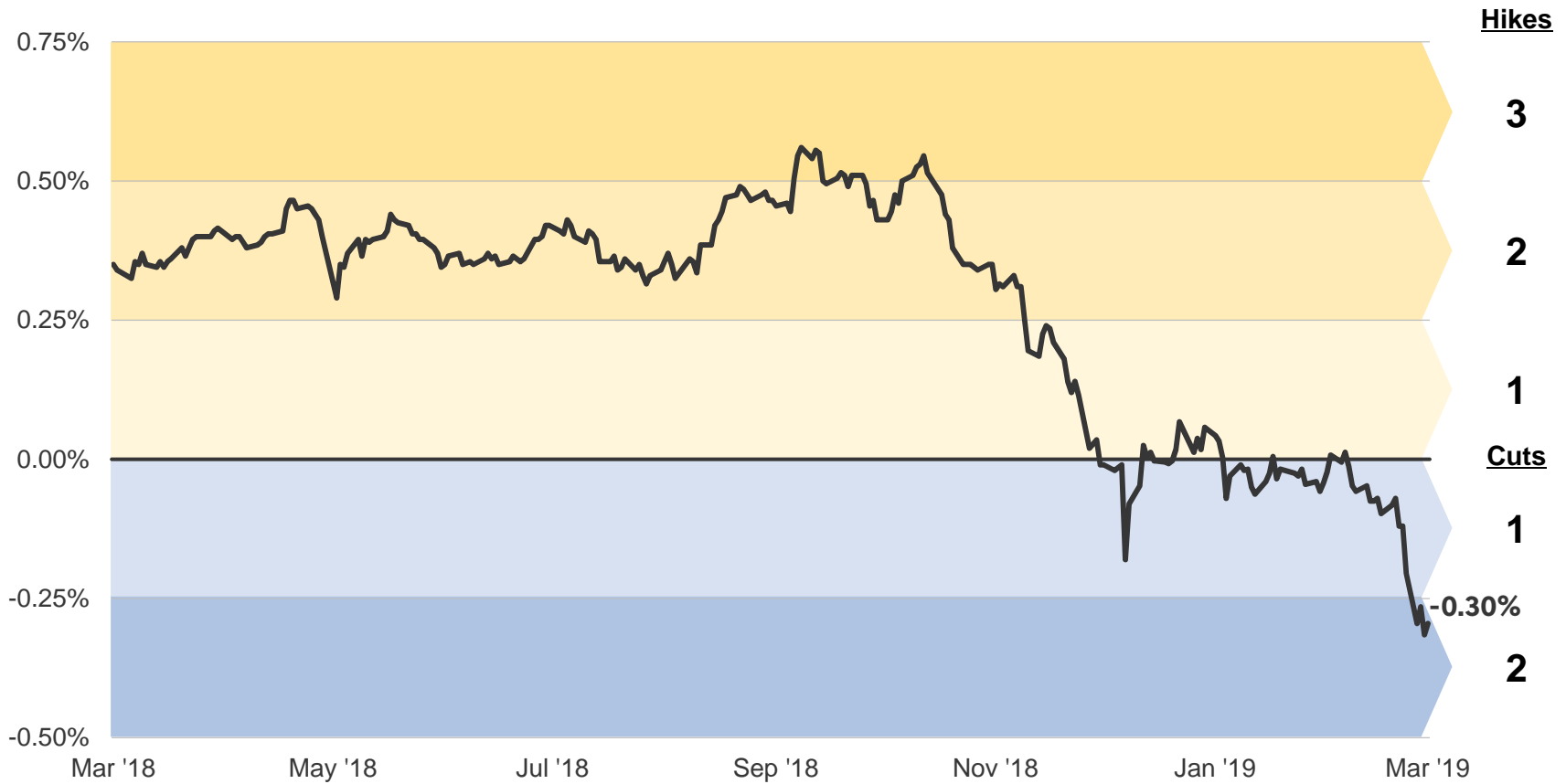


Source: Bloomberg, as of 3/28/19.



The Market is Projecting a Rate Cut in 2019

2019 Rate Moves
Priced into the Futures Market



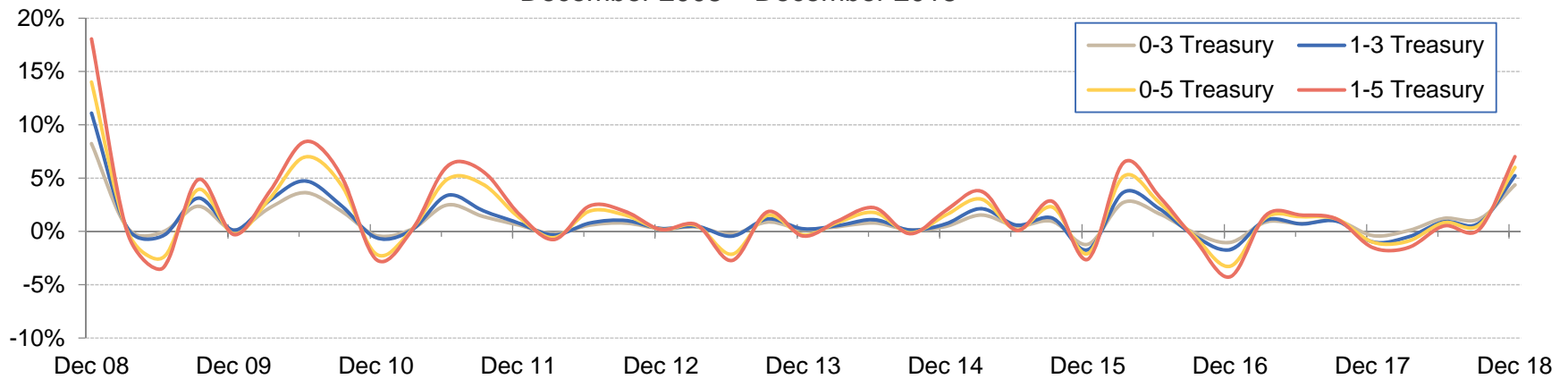
Source: Bloomberg, as of 3/28/2019.



Risk-Return Comparison of Various Benchmarks

- Long-term returns are most likely to be achieved through the disciplined implementation of a long-term investment strategy.

Annualized Quarterly Total Returns
December 2008 – December 2018



Portfolio/Index*	Past 10 Years Ending December 31, 2018					
	Duration**	Annualized Total Return	Cumulative Value of \$15 Million	Cumulative Incremental Return vs. LAIF	Annual Incremental Return	Quarters with Negative Returns
LAIF	0.53	0.68%	\$16,058,393	--	--	0 out of 40
0-3 Year UST	1.43	0.82%	\$16,284,340	\$225,947	\$22,595	8 out of 40
1-3 Year UST	1.87	0.95%	\$16,488,950	\$430,557	\$43,056	9 out of 40
0-5 Year UST	2.15	1.17%	\$16,848,489	\$790,096	\$79,010	12 out of 40
1-5 Year UST	2.62	1.33%	\$17,123,331	\$1,064,938	\$106,494	13 out of 40

*Source: ICE BofAML Indices from Bloomberg. LAIF returns from www.treasurer.ca.gov/pmia-laif/laif/index.asp.

**Durations, as of December 31, 2018.



Longer Strategies Historically Outperform with Stable/Falling Rates

Scenario	Percent of Time	Average Outperformance
0-3 Month T-Bill Outperforms	28%	1.2%
1-5 Year Treasury Index Outperforms	72%	2.6%

Total Return: 0-3 Month T-Bill Index vs. 1-5 Year Treasury Index (12 Month Rolling Avg)



Source: Bloomberg, ICE BofAML Indices 1995-2018. Chart shows rolling 12-month returns. Percentages are based on monthly data.



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