



FALLBROOK PUBLIC UTILITY DISTRICT
MEETING OF THE FISCAL POLICY AND INSURANCE COMMITTEE

AGENDA

THURSDAY, FEBRUARY 14, 2019
2:00 P.M.

FALLBROOK PUBLIC UTILITY DISTRICT
990 E. MISSION RD., FALLBROOK, CA 92028
PHONE: (760) 728-1125

If you have a disability and need an accommodation to participate in the meeting, please call the Secretary at (760) 999-2704 for assistance so the necessary arrangements can be made.

Writings that are public records and are distributed during a public meeting are available for public inspection at the meeting if prepared by the local agency or a member of its legislative body or after the meeting if prepared by some other person.

I. PRELIMINARY FUNCTIONS

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

II. ACTION / DISCUSSION -----(ITEMS A-C)

- A. REVIEW INVESTMENT PORTFOLIO QUARTERLY PERFORMANCE
- B. REVIEW PARS INVESTMENT STRATEGY
- C. PENSION AND OTHER POST EMPLOYMENT BENEFIT OBLIGATION COST REDUCTION STRATEGY

III. ADJOURNMENT OF MEETING

DECLARATION OF POSTING

I, Mary Lou West, Secretary of the Board of Directors of the Fallbrook Public Utility District, do hereby declare that I posted a copy of the foregoing agenda in the glass case at the entrance of the District Office located at 990 East Mission Road, Fallbrook, California, at least 72 hours prior to the meeting in accordance with Government Code § 54954.2.

I, Mary Lou West, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

February 11, 2019
Dated / Fallbrook, CA


Secretary, Board of Directors

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pfm

Fallbrook Public Utility District

Quarter Ending December 31, 2018

PFM Asset
Management LLC

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Los Angeles, CA 90017
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pfm.com



Portfolio Sector Allocation and Compliance

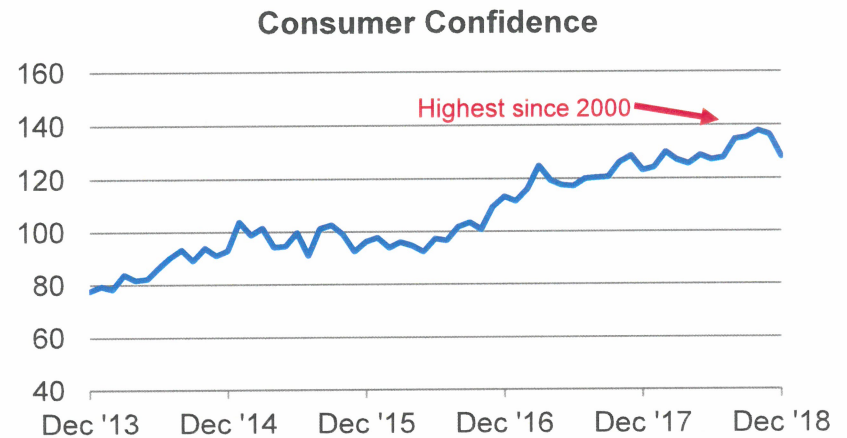
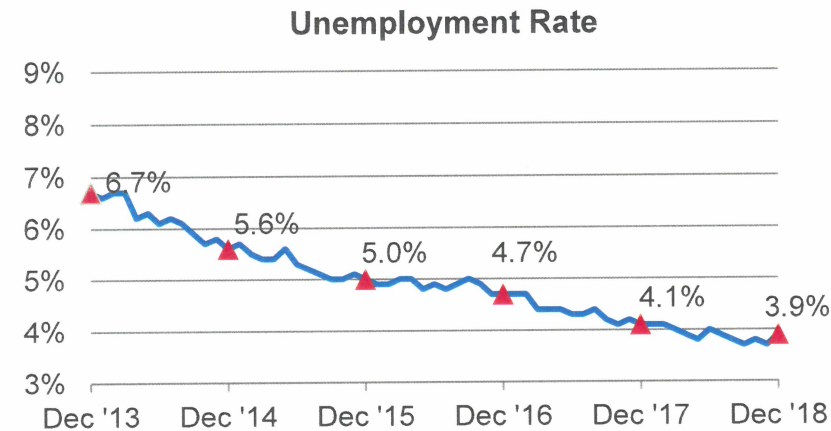
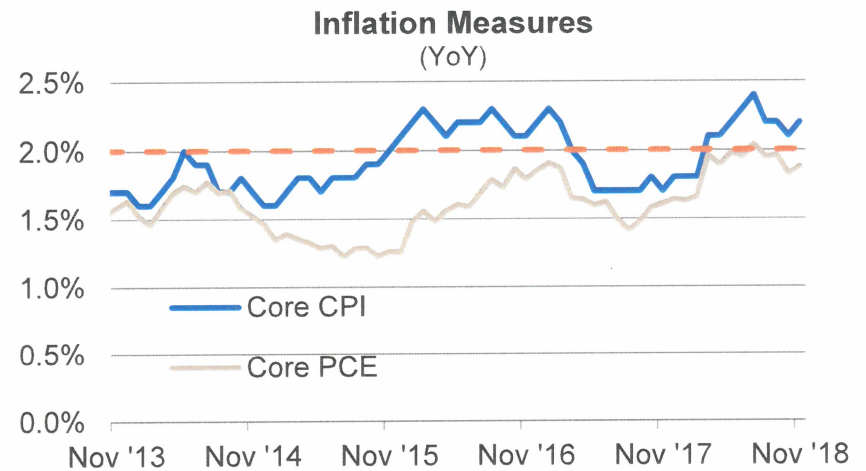
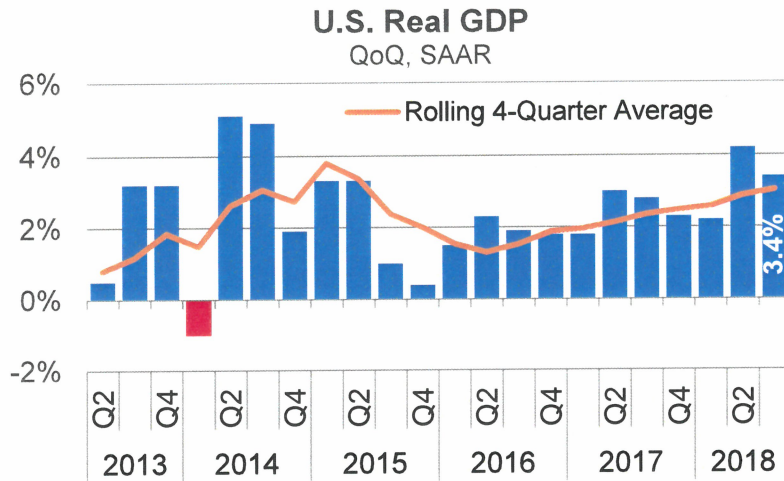
- The portfolios are in compliance with the District's Investment Policy and the California Government Code.

Security Type	December 31, 2018	% of Portfolio	Permitted by Policy	In Compliance
U.S. Treasury	\$3,974,544	33.0%	100%	✓
Federal Agency	\$249,844	2.1%	100%	✓
Federal Agency CMOs	\$110,970	0.9%	100%	✓
Municipals	\$169,850	1.4%	100%	✓
Supranationals	\$137,768	1.1%	30%	✓
Negotiable CDs	\$2,016,606	16.7%	30%	✓
Corporate Notes	\$3,746,280	31.1%	30%	✓
Asset-Backed Securities	\$1,123,209	9.3%	20%	✓
Securities Sub-Total	\$11,529,072	95.6%		
Accrued Interest	\$65,392			
Securities Total	\$11,594,464			
LAIF	\$228,834	1.9%	\$65 million	✓
San Diego Pool	\$14,923	0.1%	100%	✓
Money Market Fund	\$288,753	2%	20%	✓
Total Investments	\$12,126,974	100.0%		

As of December 31, 2018. Detail may not add to total due to rounding.



Economic Fundamentals Were Strong in 2018

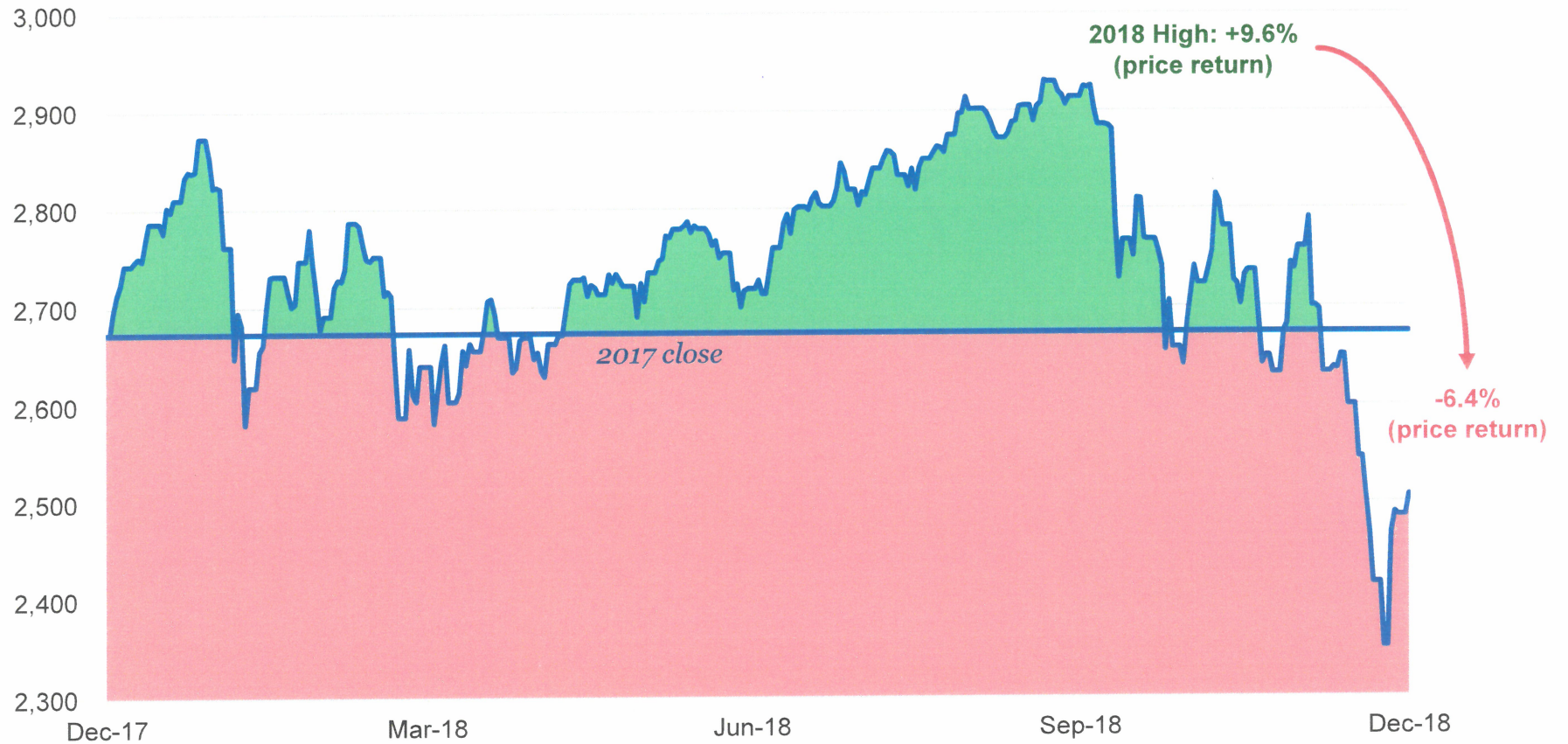


Source: Bloomberg, latest data available as of 12/31/2018.



U.S. Equities Experience Volatility in Q4

S&P 500

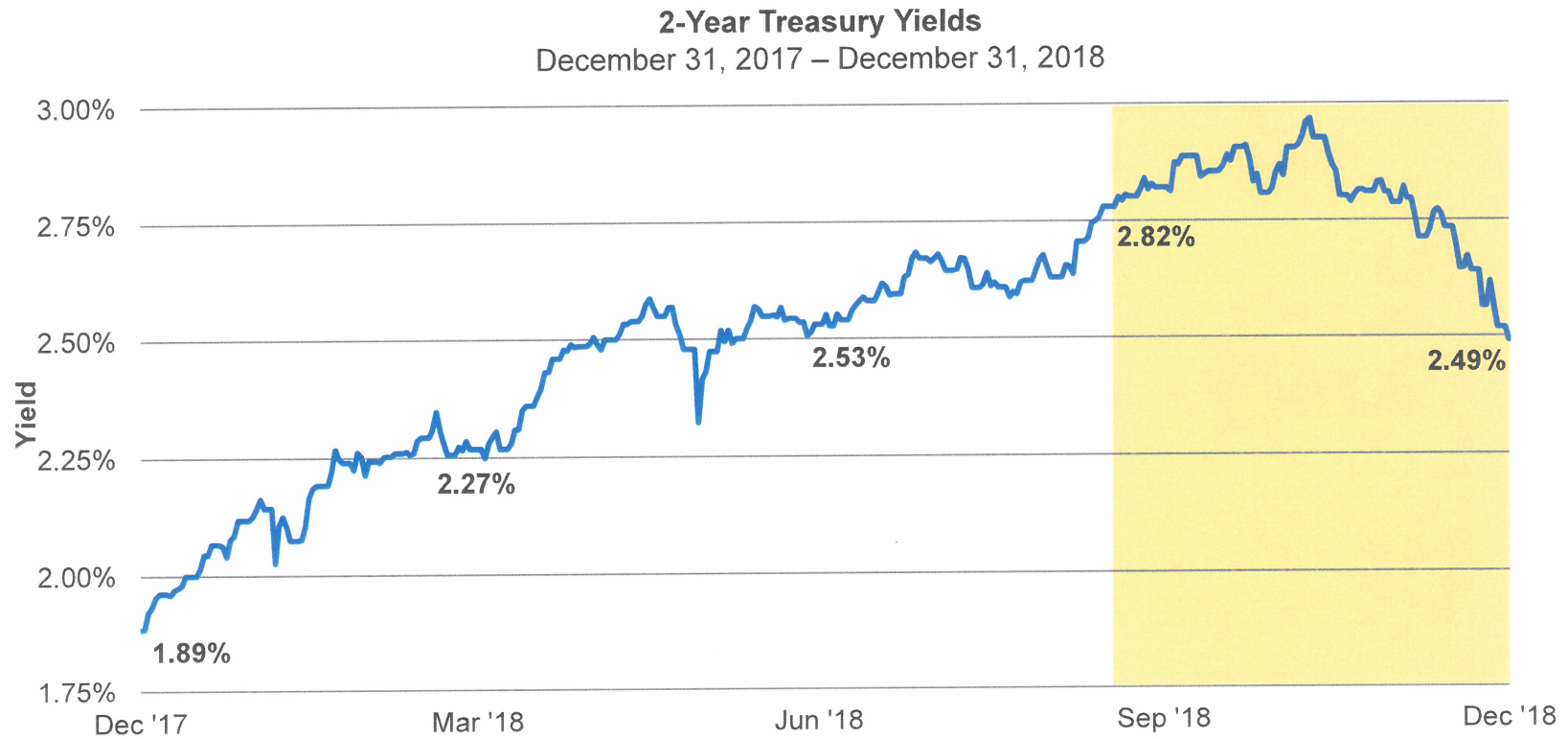


Source: Bloomberg, as of 12/31/2018.



2-Year U.S. Treasury

- A selloff in equity markets saw Treasury yields drop considerably in the fourth quarter as investors sought safety in government bonds.
- The Federal Reserve raised the federal funds target rate by 25 basis points for the fourth time in 2018 at its December meeting, but the consequential bump in yields was overcome by continued equity market uncertainty.

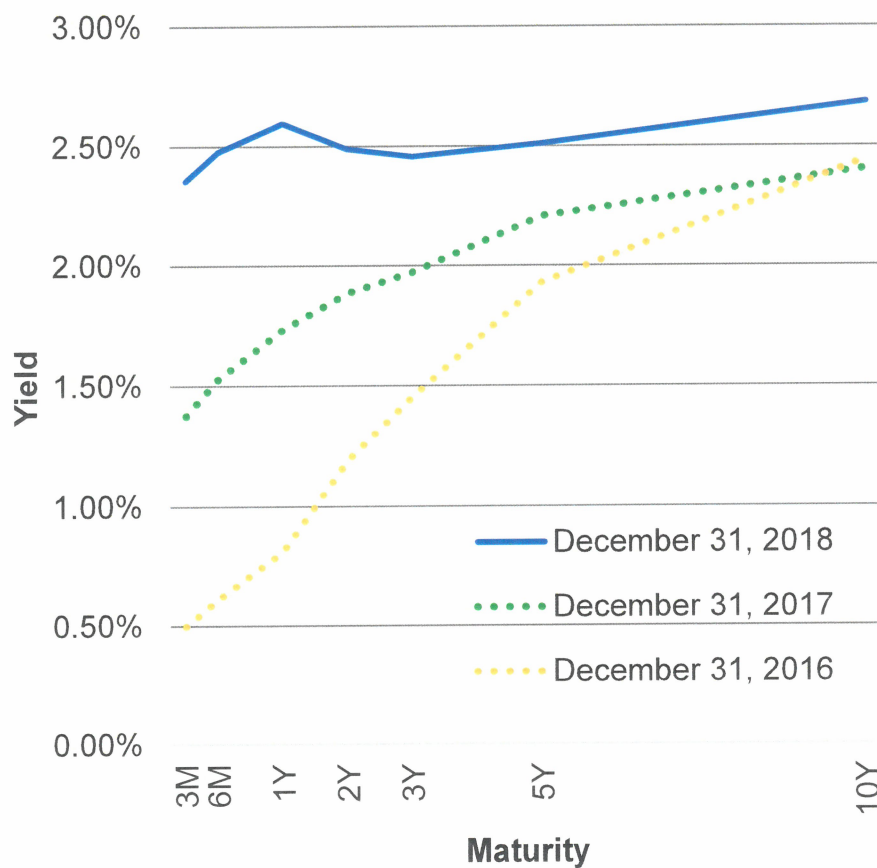


Source: Bloomberg, as of 12/31/2018.



U.S. Treasury Yield Curve

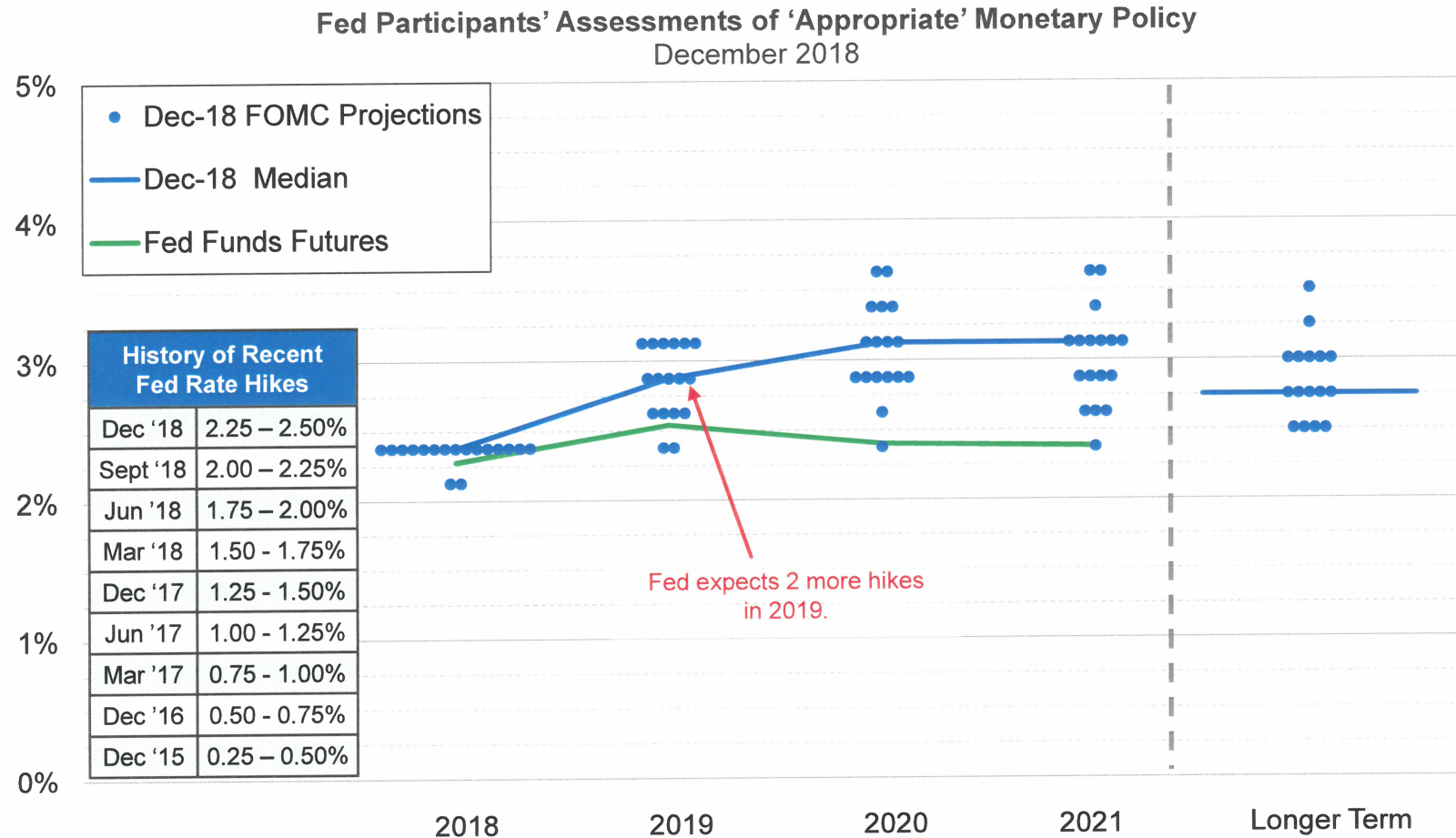
	4Q2018 12/31/18	4Q2017 12/31/17	4Q2016 12/31/16
3-month	2.35%	1.38%	0.50%
6-month	2.48%	1.53%	0.61%
1-year	2.60%	1.73%	0.81%
2-year	2.49%	1.88%	1.19%
3-year	2.46%	1.97%	1.45%
5-year	2.51%	2.21%	1.93%
10-year	2.68%	2.41%	2.44%



Source: Bloomberg, as of 12/31/2018.



FOMC “Dot Plot” – December 2018 Update



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members’ judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 12/19/18.



Disclosures

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FPUD - INVESTMENT PORTFOLIO

Investment Performance Review For the Quarter Ended December 31, 2018

Client Management Team

Sarah Meacham, Managing Director

Richard Babbe, CCM, Senior Managing Consultant

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Harrisburg, PA 17101-2141

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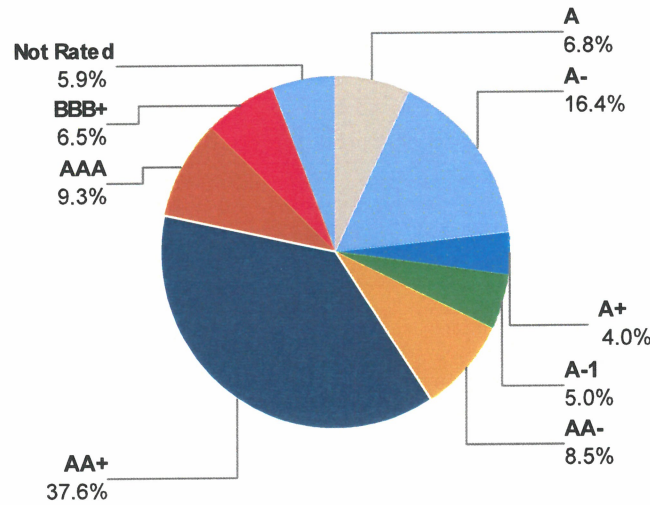
FPUD - INVESTMENT PORTFOLIO

Portfolio Statistics

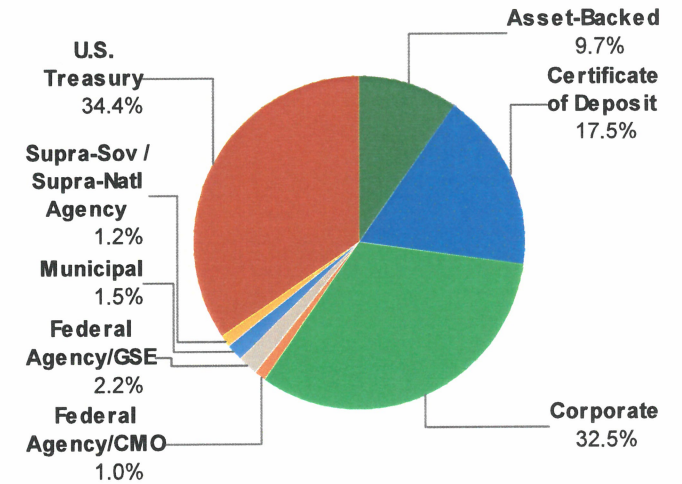
As of December 31, 2018

Par Value:	\$11,683,925
Total Market Value:	\$11,883,217
Security Market Value:	\$11,529,072
Accrued Interest:	\$65,392
Cash:	\$288,753
Amortized Cost:	\$11,686,636
Yield at Market:	2.78%
Yield at Cost:	2.10%
Effective Duration:	2.03 Years
Duration to Worst:	2.08 Years
Average Maturity:	2.31 Years
Average Credit: *	AA

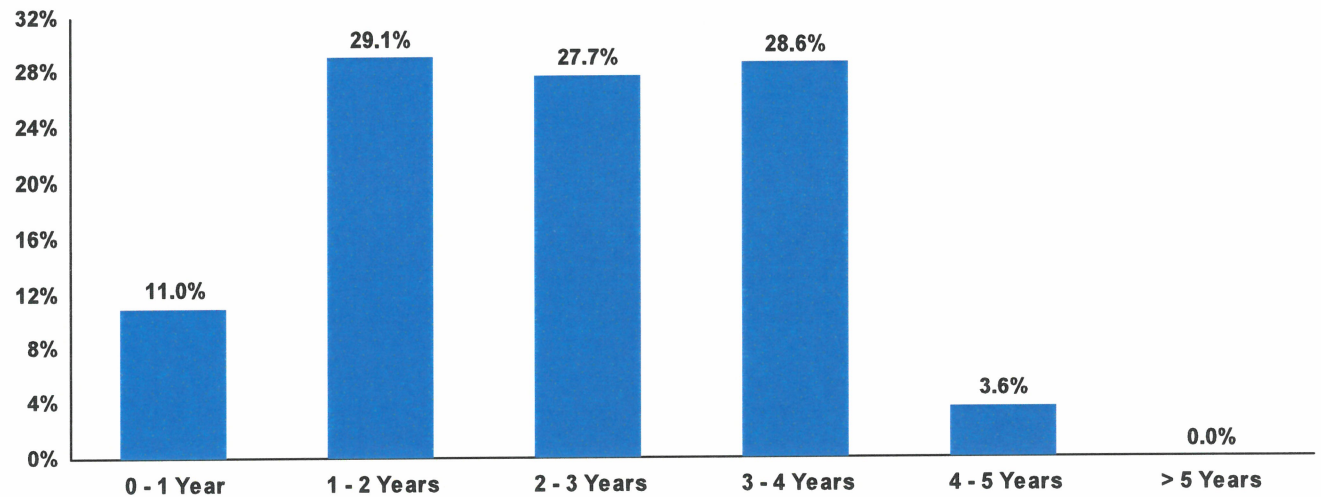
Credit Quality (S&P Ratings)



Sector Allocation



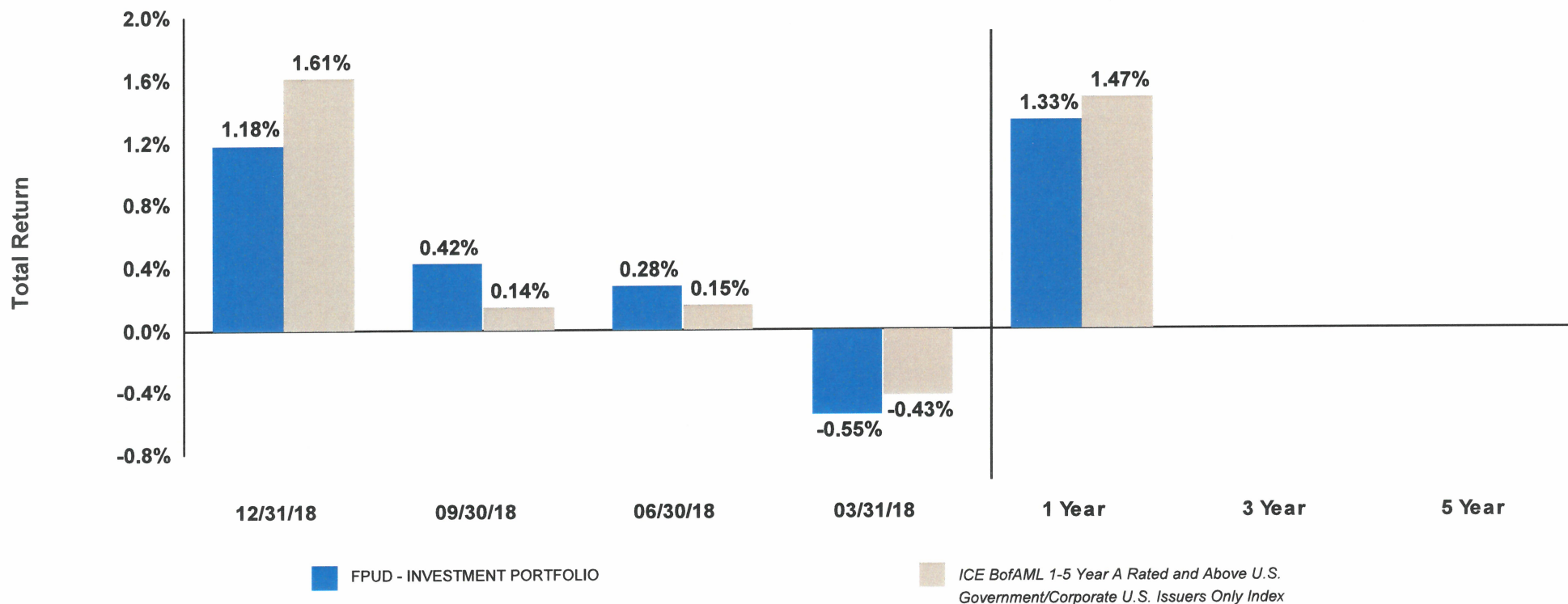
Maturity Distribution



12 An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Portfolio Performance (Total Return)

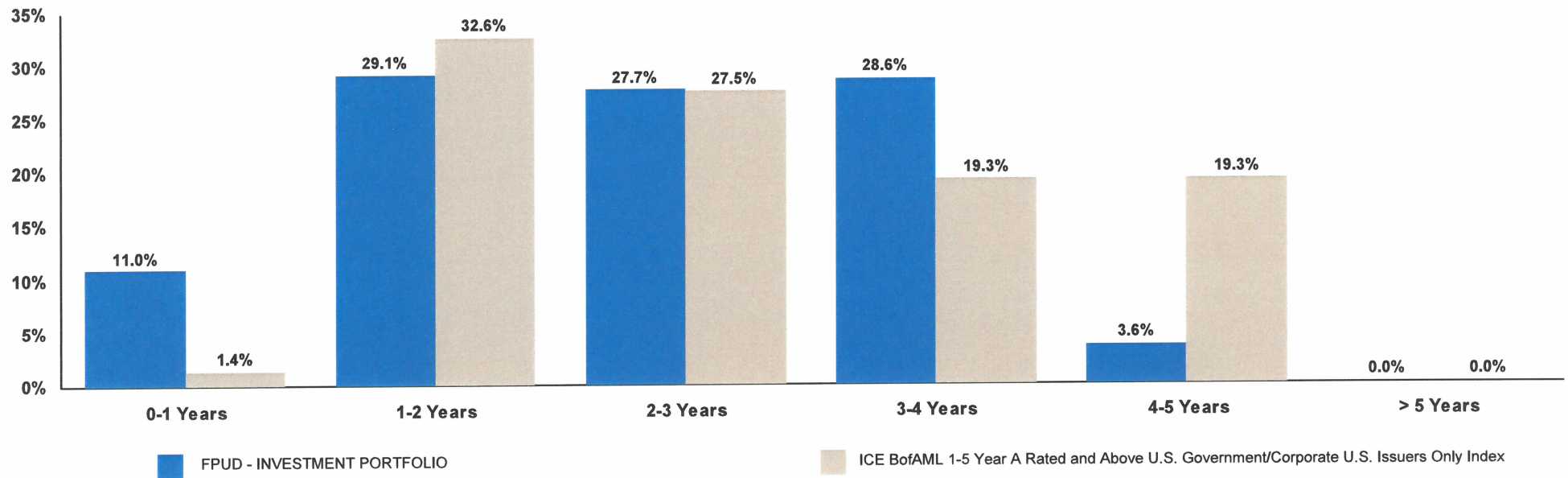
Portfolio/Benchmark	Effective Duration	Quarter Ended				1 Year	Annualized Return	
		12/31/18	09/30/18	06/30/18	03/31/18		3 Year	5 Year
FPUD - INVESTMENT PORTFOLIO	2.03	1.18%	0.42%	0.28%	-0.55%	1.33%	-	-
ICE BofAML 1-5 Year A Rated and Above U.S. Government/Corporate U.S. Issuers Only Index	2.54	1.61%	0.14%	0.15%	-0.43%	1.47%	-	-
Difference		-0.43%	0.28%	0.13%	-0.12%	-0.14%	-	-



Maturity Distribution

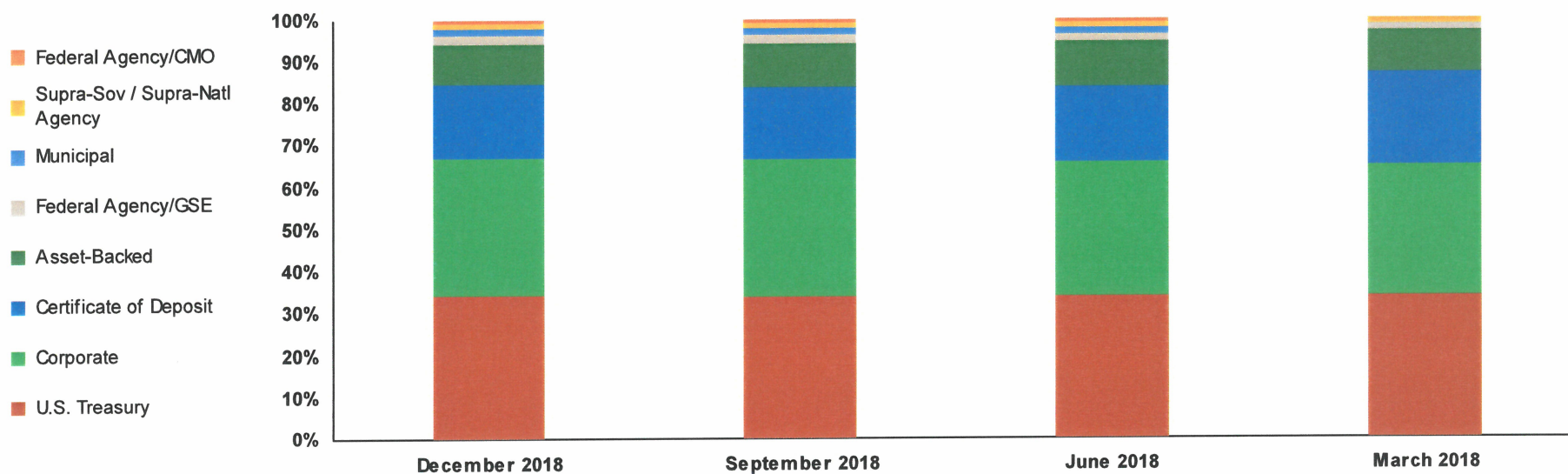
As of December 31, 2018

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
FPUD - INVESTMENT PORTFOLIO	2.78%	2.31 yrs	11.0%	29.1%	27.7%	28.6%	3.6%	0.0%
ICE BofAML 1-5 Year A Rated and Above U.S. Government/Corporate U.S. Issuers Only Index	2.61%	2.74 yrs	1.4%	32.6%	27.5%	19.3%	19.3%	0.0%



Sector Allocation

Sector	December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	4.0	34.4%	3.9	33.8%	4.1	33.7%	4.6	33.7%
Corporate	3.7	32.5%	3.7	32.3%	3.8	31.8%	4.2	31.1%
Certificate of Deposit	2.0	17.5%	2.0	17.5%	2.2	18.3%	3.0	22.4%
Asset-Backed	1.1	9.7%	1.2	10.5%	1.3	10.5%	1.3	9.8%
Federal Agency/GSE	0.2	2.2%	0.2	2.2%	0.2	2.1%	0.2	1.8%
Municipal	0.2	1.5%	0.2	1.5%	0.2	1.4%	0.0	0.0%
Supra-Sov / Supra-Natl Agency	0.1	1.2%	0.1	1.2%	0.1	1.1%	0.1	1.0%
Federal Agency/CMO	0.1	1.0%	0.1	1.0%	0.1	1.1%	0.0	0.2%
Total	\$11.5	100.0%	\$11.6	100.0%	\$12.1	100.0%	\$13.6	100.0%



Portfolio Earnings

Quarter-Ended December 31, 2018

	<u>Market Value Basis</u>	<u>Accrual (Amortized Cost) Basis</u>
Beginning Value (09/30/2018)	\$11,550,317.43	\$11,783,473.85
Net Purchases/Sales	(\$93,637.27)	(\$93,637.27)
Change in Value	\$72,392.06	(\$3,200.96)
Ending Value (12/31/2018)	\$11,529,072.22	\$11,686,635.62
Interest Earned	\$65,731.22	\$65,731.22
Portfolio Earnings	\$138,123.28	\$62,530.26

Issuer Distribution
As of December 31, 2018

Issuer	Market Value (\$)	% of Portfolio
UNITED STATES TREASURY	3,974,544	34.5%
BB&T CORPORATION	538,350	4.7%
AMERICAN EXPRESS CO	523,109	4.5%
MORGAN STANLEY	469,213	4.1%
JP MORGAN CHASE & CO	463,229	4.0%
WELLS FARGO & COMPANY	379,575	3.3%
THE BANK OF NEW YORK MELLON CORPORATION	348,916	3.0%
GOLDMAN SACHS GROUP INC	282,448	2.5%
NORDEA BANK AB	279,830	2.4%
SWEDBANK AB	274,691	2.4%
CITIGROUP INC	258,794	2.2%
WESTPAC BANKING CORP	256,473	2.2%
FEDERAL HOME LOAN BANKS	249,844	2.2%
SUMITOMO MITSUI FINANCIAL GROUP INC	249,411	2.2%
CAPITAL ONE FINANCIAL CORP	244,244	2.1%
BANK OF AMERICA CO	226,027	2.0%
FORD CREDIT AUTO OWNER TRUST	224,961	2.0%
ALLY AUTO RECEIVABLES TRUST	207,926	1.8%

Top 5 = 51.8%

Top 10 = 65.4%

Issuer	Market Value (\$)	% of Portfolio
BURLINGTON NORTHERN SANTA FE	202,438	1.8%
SKANDINAVISKA ENSKILDA BANKEN AB	183,966	1.6%
CALIFORNIA ST	169,850	1.5%
CREDIT SUISSE GROUP	144,752	1.3%
mitsubishi UFJ FINANCIAL GROUP INC	139,023	1.2%
IBM CORP	138,425	1.2%
INTL BANK OF RECONSTRUCTION AND DEV	137,768	1.2%
HONDA AUTO RECEIVABLES	124,257	1.1%
AMERICAN HONDA FINANCE	113,556	1.0%
FREDDIE MAC	110,538	1.0%
UNITED PARCEL SERVICE INC	108,078	0.9%
JOHN DEERE OWNER TRUST	104,065	0.9%
CATERPILLAR INC	98,053	0.9%
NISSAN AUTO RECEIVABLES	74,643	0.7%
NATIONAL RURAL UTILITIES CO FINANCE CORP	59,727	0.5%
HYUNDAI AUTO RECEIVABLES	58,002	0.5%
TOYOTA MOTOR CORP	46,978	0.4%
PACCAR FINANCIAL CORP	39,354	0.3%
CNH EQUIPMENT TRUST	23,583	0.2%
FANNIE MAE	432	0.0%
Grand Total:	11,529,072	100.0%

FPUD - INVESTMENT PORTFOLIO

Quarterly Portfolio Transactions

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	10/1/18	10/1/18	200,000.00	12189TBC7	BURLINGTON NRTH CORP	4.70%	10/1/19	4,700.00		
INTEREST	10/1/18	10/1/18	110,000.00	911312BP0	UNITED PARCEL SERVICE CORPORATE BOND	2.05%	4/1/21	1,127.50		
INTEREST	10/1/18	10/1/18	170,000.00	13063DGA0	CA ST TXBL GO BONDS	2.80%	4/1/21	2,062.67		
INTEREST	10/1/18	10/1/18	0.00	MONEY0002	MONEY MARKET FUND			152.69		
INTEREST	10/1/18	10/1/18	90,000.00	06051GGS2	BANK OF AMERICA CORP (CALLABLE)	2.32%	10/1/21	1,047.60		
INTEREST	10/1/18	10/1/18	300,000.00	05531FAX1	BB&T CORP (CALLABLE) NOTES	2.75%	4/1/22	4,125.00		
INTEREST	10/1/18	10/25/18	3,970.08	3136ASPX8	FNMA SERIES 2016-M9 ASQ2	1.78%	6/1/19	5.91		
INTEREST	10/1/18	10/25/18	110,000.00	3137BM6P6	FHLMC MULTIFAMILY STRUCTURED P POOL	3.09%	8/25/22	283.25		
PAYDOWNS	10/1/18	10/25/18	506.16	3136ASPX8	FNMA SERIES 2016-M9 ASQ2	1.78%	6/1/19	506.16		0.00
INTEREST	10/15/18	10/15/18	95,000.00	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	132.21		
INTEREST	10/15/18	10/15/18	125,000.00	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	275.00		
INTEREST	10/15/18	10/15/18	44,759.36	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	48.49		
INTEREST	10/15/18	10/15/18	30,000.00	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	44.50		
INTEREST	10/15/18	10/15/18	30,000.00	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	45.50		
INTEREST	10/15/18	10/15/18	73,438.03	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	78.95		
INTEREST	10/15/18	10/15/18	25,894.52	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	24.60		
INTEREST	10/15/18	10/15/18	100,000.00	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	145.83		
INTEREST	10/15/18	10/15/18	57,627.96	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	78.76		
INTEREST	10/15/18	10/15/18	35,000.00	47788CAC6	JDOT 2018-A A3	2.66%	4/15/22	77.58		
INTEREST	10/15/18	10/15/18	19,872.32	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	20.70		

FPUD - INVESTMENT PORTFOLIO

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	10/15/18	10/15/18	110,000.00	02007YAC8	ALLYA 2017-5 A3	1.99%	3/15/22	182.42		
INTEREST	10/15/18	10/15/18	140,000.00	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	234.50		
INTEREST	10/15/18	10/15/18	75,000.00	65478DAD9	NAROT 2018-A A3	2.65%	5/15/22	165.63		
PAYDOWNS	10/15/18	10/15/18	5,028.15	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	5,028.15		0.00
PAYDOWNS	10/15/18	10/15/18	2,362.34	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	2,362.34		0.00
PAYDOWNS	10/15/18	10/15/18	10,018.05	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	10,018.05		0.00
PAYDOWNS	10/15/18	10/15/18	1,942.26	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	1,942.26		0.00
PAYDOWNS	10/15/18	10/15/18	5,336.13	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	5,336.13		0.00
INTEREST	10/21/18	10/21/18	260,000.00	61746BEA0	MORGAN STANLEY CORP NOTES	2.50%	4/21/21	3,250.00		
INTEREST	10/25/18	10/25/18	290,000.00	38141GVU5	GOLDMAN SACHS GRP INC CORP NT (CALLABLE)	2.62%	4/25/21	3,806.25		
INTEREST	10/31/18	10/31/18	245,000.00	912828T67	US TREASURY NOTES	1.25%	10/31/21	1,531.25		
INTEREST	10/31/18	10/31/18	250,000.00	912828T67	US TREASURY NOTES	1.25%	10/31/21	1,562.50		
INTEREST	11/1/18	11/1/18	0.00	MONEY0002	MONEY MARKET FUND			277.74		
INTEREST	11/1/18	11/25/18	110,000.00	3137BM6P6	FHLMC MULTIFAMILY STRUCTURED P POOL	3.09%	8/25/22	283.25		
INTEREST	11/1/18	11/25/18	3,463.92	3136ASPX8	FNMA SERIES 2016-M9 ASQ2	1.78%	6/1/19	5.15		
PAYDOWNS	11/1/18	11/25/18	244.55	3136ASPX8	FNMA SERIES 2016-M9 ASQ2	1.78%	6/1/19	244.55		0.00
INTEREST	11/5/18	11/5/18	285,000.00	0258M0EB1	AMERICAN EXPRESS CREDIT (CALLABLE) NOTES	2.25%	5/5/21	3,206.25		
INTEREST	11/5/18	11/5/18	250,000.00	86563YVN0	SUMITOMO MITSUI BANK NY CD	2.05%	5/3/19	2,647.92		
INTEREST	11/10/18	11/10/18	250,000.00	05531FAV5	BRANCH BANKING & TRUST (CALLABLE) NOTE	2.05%	5/10/21	2,562.50		
INTEREST	11/13/18	11/13/18	40,000.00	69371RN85	PACCAR FINANCIAL CORP NOTES	2.05%	11/13/20	410.00		
INTEREST	11/15/18	11/15/18	140,000.00	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	234.50		
INTEREST	11/15/18	11/15/18	100,000.00	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	145.83		

FPUD - INVESTMENT PORTFOLIO

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	11/15/18	11/15/18	47,609.91	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	65.07		
INTEREST	11/15/18	11/15/18	30,000.00	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	44.50		
INTEREST	11/15/18	11/15/18	30,000.00	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	45.50		
INTEREST	11/15/18	11/15/18	75,000.00	65478DAD9	NAROT 2018-A A3	2.65%	5/15/22	165.63		
INTEREST	11/15/18	11/15/18	35,000.00	47788CAC6	JDOT 2018-A A3	2.66%	4/15/22	77.58		
INTEREST	11/15/18	11/15/18	17,930.06	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	18.68		
INTEREST	11/15/18	11/15/18	68,409.88	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	73.54		
INTEREST	11/15/18	11/15/18	23,532.18	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	22.36		
INTEREST	11/15/18	11/15/18	95,000.00	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	132.21		
INTEREST	11/15/18	11/15/18	125,000.00	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	275.00		
INTEREST	11/15/18	11/15/18	39,423.23	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	42.71		
INTEREST	11/15/18	11/15/18	110,000.00	02007YAC8	ALLYA 2017-5 A3	1.99%	3/15/22	182.42		
PAYDOWNS	11/15/18	11/15/18	5,076.21	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	5,076.21		0.00
PAYDOWNS	11/15/18	11/15/18	2,513.97	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	2,513.97		0.00
PAYDOWNS	11/15/18	11/15/18	13,240.16	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	13,240.16		0.00
PAYDOWNS	11/15/18	11/15/18	2,611.75	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	2,611.75		0.00
PAYDOWNS	11/15/18	11/15/18	5,750.21	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	5,750.21		0.00
PAYDOWNS	11/15/18	11/15/18	1,407.15	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	1,407.15		0.00
PAYDOWNS	11/15/18	11/15/18	1,332.82	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	1,332.82		0.00
INTEREST	11/16/18	11/16/18	280,000.00	87019U6D6	SWEDBANK (NEW YORK) CERT DEPOS	2.27%	11/16/20	3,248.62		
INTEREST	11/17/18	11/17/18	220,000.00	61746BED4	MORGAN STANLEY BONDS	2.62%	11/17/21	2,887.50		
INTEREST	11/30/18	11/30/18	130,000.00	912828A42	US TREASURY NOTES	2.00%	11/30/20	1,300.00		

FPUD - INVESTMENT PORTFOLIO

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	11/30/18	11/30/18	285,000.00	912828XE5	US TREASURY NOTES	1.50%	5/31/20	2,137.50		
INTEREST	12/1/18	12/25/18	3,219.37	3136ASPX8	FNMA SERIES 2016-M9 ASQ2	1.78%	6/1/19	4.79		
INTEREST	12/1/18	12/25/18	110,000.00	3137BM6P6	FHLMC MULTIFAMILY STRUCTURED P POOL	3.09%	8/25/22	283.25		
PAYDOWNS	12/1/18	12/25/18	2,785.38	3136ASPX8	FNMA SERIES 2016-M9 ASQ2	1.78%	6/1/19	2,785.38		0.00
INTEREST	12/3/18	12/3/18	0.00	MONEY0002	MONEY MARKET FUND			359.36		
INTEREST	12/7/18	12/7/18	385,000.00	94974BGR5	WELLS FARGO & COMPANY NOTES	2.55%	12/7/20	4,908.75		
INTEREST	12/15/18	12/15/18	34,369.75	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	46.97		
INTEREST	12/15/18	12/15/18	140,000.00	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	234.50		
INTEREST	12/15/18	12/15/18	75,000.00	65478DAD9	NAROT 2018-A A3	2.65%	5/15/22	165.63		
INTEREST	12/15/18	12/15/18	21,018.21	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	19.97		
INTEREST	12/15/18	12/15/18	110,000.00	02007YAC8	ALLYA 2017-5 A3	1.99%	3/15/22	182.42		
INTEREST	12/15/18	12/15/18	63,333.67	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	68.08		
INTEREST	12/15/18	12/15/18	28,592.85	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	42.41		
INTEREST	12/15/18	12/15/18	100,000.00	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	145.83		
INTEREST	12/15/18	12/15/18	125,000.00	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	275.00		
INTEREST	12/15/18	12/15/18	33,673.02	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	36.48		
INTEREST	12/15/18	12/15/18	30,000.00	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	45.50		
INTEREST	12/15/18	12/15/18	35,000.00	47788CAC6	JDOT 2018-A A3	2.66%	4/15/22	77.58		
INTEREST	12/15/18	12/15/18	93,667.18	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	130.35		
INTEREST	12/15/18	12/15/18	15,318.31	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	15.96		
PAYDOWNS	12/15/18	12/15/18	4,763.67	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	4,763.67		0.00
PAYDOWNS	12/15/18	12/15/18	2,246.56	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	2,246.56		0.00

FPUD - INVESTMENT PORTFOLIO

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
PAYDOWNS	12/15/18	12/15/18	10,762.97	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	10,762.97		0.00
PAYDOWNS	12/15/18	12/15/18	1,972.41	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	1,972.41		0.00
PAYDOWNS	12/15/18	12/15/18	5,189.77	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	5,189.77		0.00
PAYDOWNS	12/15/18	12/15/18	2,171.83	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	2,171.83		0.00
PAYDOWNS	12/15/18	12/15/18	6,374.77	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	6,374.77		0.00
INTEREST	12/31/18	12/31/18	235,000.00	912828XW5	US TREASURY NOTES	1.75%	6/30/22	2,056.25		
INTEREST	12/31/18	12/31/18	390,000.00	912828U81	US TREASURY NOTES	2.00%	12/31/21	3,900.00		
INTEREST	12/31/18	12/31/18	240,000.00	912828N30	US TREASURY NOTES	2.12%	12/31/22	2,550.00		
INTEREST	12/31/18	12/31/18	185,000.00	912828N30	US TREASURY NOTES	2.12%	12/31/22	1,965.63		
TOTALS								156,853.23		0.00

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	75,000.00	AA+	Aaa	1/2/2018	1/4/2018	73,983.40	1.92	392.32	74,465.00	73,916.03
US TREASURY NOTES DTD 06/01/2015 1.500% 05/31/2020	912828XE5	285,000.00	AA+	Aaa	9/1/2016	9/2/2016	289,597.86	1.06	375.82	286,756.20	280,813.92
US TREASURY NOTES DTD 12/02/2013 2.000% 11/30/2020	912828A42	130,000.00	AA+	Aaa	4/27/2016	4/29/2016	133,971.10	1.31	228.57	131,684.24	128,796.46
US TREASURY NOTES DTD 08/01/2016 1.125% 07/31/2021	912828S76	175,000.00	AA+	Aaa	5/8/2017	5/10/2017	170,016.60	1.83	823.88	171,911.81	169,086.93
US TREASURY NOTES DTD 09/02/2014 2.000% 08/31/2021	912828D72	150,000.00	AA+	Aaa	12/1/2016	12/5/2016	150,527.34	1.92	1,019.34	150,303.12	148,136.70
US TREASURY NOTES DTD 10/31/2016 1.250% 10/31/2021	912828T67	250,000.00	AA+	Aaa	3/14/2017	3/16/2017	240,703.13	2.10	535.22	244,208.99	241,660.25
US TREASURY NOTES DTD 10/31/2016 1.250% 10/31/2021	912828T67	245,000.00	AA+	Aaa	8/30/2017	8/31/2017	241,152.73	1.64	524.52	242,360.49	236,827.05
US TREASURY NOTES DTD 01/03/2017 2.000% 12/31/2021	912828U81	390,000.00	AA+	Aaa	6/26/2017	6/28/2017	394,737.89	1.72	21.55	393,192.43	384,667.92
US TREASURY NOTES DTD 02/02/2015 1.500% 01/31/2022	912828H86	460,000.00	AA+	Aaa	7/5/2017	7/7/2017	452,435.16	1.88	2,887.50	454,826.27	446,864.70
US TREASURY NOTES DTD 03/31/2017 1.875% 03/31/2022	912828W89	110,000.00	AA+	Aaa	6/26/2017	6/28/2017	110,648.83	1.75	526.96	110,449.03	107,937.50
US TREASURY NOTES DTD 06/30/2017 1.750% 06/30/2022	912828XW5	235,000.00	AA+	Aaa	9/1/2017	9/7/2017	235,330.47	1.72	11.36	235,244.35	229,308.54
US TREASURY NOTES DTD 07/31/2017 1.875% 07/31/2022	912828P4	245,000.00	AA+	Aaa	1/2/2018	1/4/2018	241,363.28	2.22	1,922.38	242,122.69	239,918.21
US TREASURY NOTES DTD 07/31/2017 1.875% 07/31/2022	912828P4	100,000.00	AA+	Aaa	2/26/2018	2/28/2018	97,101.56	2.57	784.65	97,628.79	97,925.80
US TREASURY NOTES DTD 07/31/2017 1.875% 07/31/2022	912828P4	95,000.00	AA+	Aaa	12/4/2017	12/6/2017	93,883.01	2.14	745.41	94,131.22	93,029.51
US TREASURY NOTES DTD 09/30/2015 1.750% 09/30/2022	912828L57	250,000.00	AA+	Aaa	12/4/2017	12/6/2017	245,429.69	2.15	1,117.79	246,408.89	243,398.50

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 09/30/2015 1.750% 09/30/2022	912828L57	175,000.00	AA+	Aaa	3/23/2018	3/26/2018	168,697.27	2.60	782.45	169,721.39	170,378.95
US TREASURY NOTES DTD 09/30/2015 1.750% 09/30/2022	912828L57	270,000.00	AA+	Aaa	10/4/2017	10/5/2017	267,510.94	1.94	1,207.21	268,109.05	262,870.38
US TREASURY NOTES DTD 12/31/2015 2.125% 12/31/2022	912828N30	185,000.00	AA+	Aaa	2/26/2018	2/28/2018	180,989.26	2.60	10.86	181,652.41	182,391.13
US TREASURY NOTES DTD 12/31/2015 2.125% 12/31/2022	912828N30	240,000.00	AA+	Aaa	7/3/2018	7/6/2018	233,915.63	2.73	14.09	234,541.07	236,615.52
Security Type Sub-Total		4,065,000.00					4,021,995.15	1.95	13,931.88	4,029,717.44	3,974,544.00
Supra-National Agency Bond / Note											
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 08/29/2017 1.625% 09/04/2020	459058GA5	140,000.00	AAA	Aaa	8/22/2017	8/29/2017	139,970.60	1.63	739.38	139,983.42	137,768.12
Security Type Sub-Total		140,000.00					139,970.60	1.63	739.38	139,983.42	137,768.12
Municipal Bond / Note											
CA ST TXBL GO BONDS DTD 04/25/2018 2.800% 04/01/2021	13063DGA0	170,000.00	AA-	Aa3	4/18/2018	4/25/2018	170,006.80	2.80	1,190.00	170,003.80	169,850.40
Security Type Sub-Total		170,000.00					170,006.80	2.80	1,190.00	170,003.80	169,850.40
Federal Agency Collateralized Mortgage Obligation											
FNMA SERIES 2016-M9 ASQ2 DTD 06/01/2016 1.785% 06/01/2019	3136ASPX8	433.99	AA+	Aaa	6/9/2016	6/30/2016	438.33	1.05	0.65	434.13	431.82
FHLMC MULTIFAMILY STRUCTURED P POOL DTD 12/01/2015 3.090% 08/25/2022	3137BM6P6	110,000.00	AA+	Aaa	4/4/2018	4/9/2018	110,936.72	2.61	283.25	110,757.09	110,538.48

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Security Type Sub-Total		110,433.99					111,375.05	2.61	283.90	111,191.22	110,970.30
Federal Agency Bond / Note											
FHLB NOTES DTD 09/08/2017 1.375% 09/28/2020	3130ACE26	10,000.00	AA+	Aaa	9/7/2017	9/8/2017	9,967.90	1.48	35.52	9,981.52	9,797.80
FHLB NOTES DTD 09/08/2017 1.375% 09/28/2020	3130ACE26	245,000.00	AA+	Aaa	9/18/2017	9/19/2017	243,238.45	1.62	870.26	243,975.42	240,046.10
Security Type Sub-Total		255,000.00					253,206.35	1.61	905.78	253,956.94	249,843.90
Corporate Note											
BURLINGTON NRTH CORP DTD 09/24/2009 4.700% 10/01/2019	12189TBC7	200,000.00	A+	A3	6/3/2016	6/8/2016	220,780.00	1.48	2,350.00	204,789.95	202,437.60
AMERICAN HONDA FINANCE DTD 02/16/2017 2.000% 02/14/2020	02665WBM2	90,000.00	A+	A2	2/13/2017	2/16/2017	89,872.20	2.05	685.00	89,951.31	88,950.69
BNY MELLON (CALLABLE) CORP NOTE DTD 02/24/2015 2.150% 02/24/2020	06406HCZ0	352,000.00	A	A1	7/7/2015	7/7/2015	352,148.30	2.14	2,669.82	352,039.04	348,915.78
AMERICAN HONDA FINANCE CORP NOTES DTD 07/20/2017 1.950% 07/20/2020	02665WBT7	25,000.00	A+	A2	7/17/2017	7/20/2017	24,974.75	1.98	218.02	24,986.75	24,604.83
JP MORGAN CHASE & CO NOTES DTD 07/22/2010 4.400% 07/22/2020	46625HHS2	455,000.00	A-	A2	4/27/2016	4/29/2016	493,065.30	2.31	8,842.17	469,456.57	463,228.68
CATERPILLAR FINL SERVICE NOTE DTD 09/07/2017 1.850% 09/04/2020	14913Q2A6	100,000.00	A	A3	9/5/2017	9/7/2017	99,916.00	1.88	601.25	99,952.37	98,052.50
PACCAR FINANCIAL CORP NOTES DTD 11/13/2017 2.050% 11/13/2020	69371RN85	40,000.00	A+	A1	11/6/2017	11/13/2017	39,996.40	2.05	109.33	39,997.73	39,354.32
WELLS FARGO & COMPANY NOTES DTD 12/07/2015 2.550% 12/07/2020	94974BGR5	385,000.00	A-	A2	4/27/2016	4/29/2016	391,579.65	2.16	654.50	387,842.87	379,574.97
IBM CORP CORP NOTES DTD 02/06/2018 2.650% 02/05/2021	44932HAG8	140,000.00	A	A1	2/1/2018	2/6/2018	139,931.40	2.67	1,504.61	139,951.46	138,425.42

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Corporate Note											
NATIONAL RURAL UTIL COOP DTD 02/26/2018 2.900% 03/15/2021	63743HER9	60,000.00	A	A2	2/21/2018	2/26/2018	59,933.40	2.94	512.33	59,950.88	59,726.82
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	110,000.00	A+	A1	11/9/2017	11/14/2017	109,826.20	2.10	563.75	109,882.28	108,077.86
MORGAN STANLEY CORP NOTES DTD 04/21/2016 2.500% 04/21/2021	61746BEA0	260,000.00	BBB+	A3	5/10/2016	5/13/2016	261,492.40	2.38	1,263.89	260,719.14	254,486.96
GOLDMAN SACHS GRP INC CORP NT (CALLABLE) DTD 04/25/2016 2.625% 04/25/2021	38141GVU5	290,000.00	BBB+	A3	8/10/2016	8/15/2016	296,693.20	2.11	1,395.63	293,325.05	282,447.53
AMERICAN EXPRESS CREDIT (CALLABLE) NOTES DTD 05/05/2016 2.250% 05/05/2021	0258M0EB1	285,000.00	A-	A2	5/5/2016	5/10/2016	286,558.95	2.13	997.50	285,739.96	278,893.31
BRANCH BANKING & TRUST (CALLABLE) NOTE DTD 05/10/2016 2.050% 05/10/2021	05531FAV5	250,000.00	A-	A2	5/10/2016	5/16/2016	249,835.00	2.06	726.04	249,920.03	243,432.50
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	90,000.00	A-	A3	9/13/2017	9/18/2017	90,000.00	2.33	523.80	90,000.00	88,243.29
MORGAN STANLEY BONDS DTD 11/17/2016 2.625% 11/17/2021	61746BED4	220,000.00	BBB+	A3	2/1/2017	2/3/2017	216,755.00	2.96	705.83	217,999.22	214,725.94
BANK OF AMERICA CORP CORP NOTES DTD 01/24/2012 5.700% 01/24/2022	06051GEM7	130,000.00	A-	A3	9/1/2017	9/7/2017	147,414.80	2.46	3,231.58	142,376.26	137,783.49
BB&T CORP (CALLABLE) NOTES DTD 03/21/2017 2.750% 04/01/2022	05531FAX1	300,000.00	A-	A2	4/3/2017	4/6/2017	302,265.00	2.59	2,062.50	301,496.72	294,917.70
Security Type Sub-Total		3,782,000.00					3,873,037.95	2.25	29,617.55	3,820,377.59	3,746,280.19
Certificate of Deposit											
SUMITOMO MITSUI BANK NY CD DTD 05/04/2017 2.050% 05/03/2019	86563YVN0	250,000.00	A-1	P-1	5/3/2017	5/4/2017	250,000.00	2.05	811.46	250,000.00	249,411.25

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Certificate of Deposit											
AMERICAN EXPRESS BK FSB LT CD DTD 07/24/2014 2.000% 07/24/2019	02587CAJ9	245,000.00	NR	NR	7/25/2014	7/25/2014	245,000.00	1.92	2,161.37	245,000.00	244,216.00
SKANDINAV ENSKILDA BANKEN NY CD DTD 08/04/2017 1.840% 08/02/2019	83050FXT3	185,000.00	A-1	P-1	8/3/2017	8/4/2017	184,927.85	1.85	1,437.24	184,978.89	183,966.41
CAPTIAL ONE BANK USA NA LT CD DTD 08/12/2015 2.000% 08/12/2019	140420UE8	245,000.00	NR	NR	8/12/2015	8/12/2015	245,000.00	1.94	1,906.30	245,000.00	244,243.69
MUFG BANK LTD/NY CERT DEPOS DTD 09/27/2017 2.070% 09/25/2019	06539RGM3	140,000.00	A-1	P-1	9/25/2017	9/27/2017	140,000.00	2.07	788.90	140,000.00	139,023.22
CREDIT SUISSE NEW YORK CERT DEPOS DTD 02/08/2018 2.670% 02/07/2020	22549LFR1	145,000.00	A	A1	2/7/2018	2/8/2018	145,000.00	2.67	3,473.60	145,000.00	144,751.91
NORDEA BANK AB NY CD DTD 02/22/2018 2.720% 02/20/2020	65590ASN7	280,000.00	AA-	Aa3	2/20/2018	2/22/2018	280,000.00	2.72	2,771.38	280,000.00	279,829.76
WESTPAC BANKING CORP NY CD DTD 08/07/2017 2.050% 08/03/2020	96121T4A3	260,000.00	AA-	Aa3	8/3/2017	8/7/2017	260,000.00	2.05	2,132.00	260,000.00	256,473.36
SWEDBANK (NEW YORK) CERT DEPOS DTD 11/17/2017 2.270% 11/16/2020	87019U6D6	280,000.00	AA-	Aa2	11/16/2017	11/17/2017	280,000.00	2.30	812.16	280,000.00	274,690.64
Security Type Sub-Total		2,030,000.00					2,029,927.85	2.18	16,294.41	2,029,978.89	2,016,606.24
Asset-Backed Security / Collateralized Mortgage Obligation											
TOYOTA ABS 2016-B A3 DTD 05/11/2016 1.300% 04/15/2020	89231UAD9	28,483.25	AAA	Aaa	5/2/2016	5/11/2016	28,481.79	1.30	16.46	28,482.84	28,329.56
JOHN DEERE ABS 2016-B A3 DTD 07/27/2016 1.250% 06/15/2020	47788NAC2	13,345.90	NR	Aaa	7/19/2016	7/27/2016	13,344.84	1.25	7.41	13,345.56	13,285.30
CNH 2017-A A2 DTD 03/22/2017 1.640% 07/15/2020	12636WAB2	23,606.78	AAA	NR	3/15/2017	3/22/2017	23,605.87	1.80	17.21	23,606.32	23,583.00
TOYOTA ABS 2016-C A3 DTD 08/10/2016 1.140% 08/15/2020	89237WAD9	18,771.65	AAA	Aaa	8/1/2016	8/10/2016	18,771.14	1.14	9.51	18,771.48	18,648.46

FPUD - INVESTMENT PORTFOLIO

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Asset-Backed Security / Collateralized Mortgage Obligation											
CITIBANK ABS 2017-A2 A2 DTD 01/26/2017 1.740% 01/19/2021	17305EGA7	120,000.00	AAA	Aaa	1/19/2017	1/26/2017	119,977.02	1.75	951.20	120,000.00	119,922.78
JOHN DEERE ABS 2017-A A3 DTD 03/02/2017 1.780% 04/15/2021	47787XAC1	26,421.02	NR	Aaa	2/22/2017	3/2/2017	26,417.26	1.79	20.90	26,418.47	26,232.24
HYUNDAI ABS 2016-B A3 DTD 09/21/2016 1.290% 04/15/2021	44891EAC3	58,570.00	AAA	Aaa	9/14/2016	9/21/2016	58,562.12	1.30	33.58	58,566.43	58,002.06
FORD ABS 2017-A A3 DTD 01/25/2017 1.670% 06/15/2021	34531EAD8	87,292.41	NR	Aaa	1/18/2017	1/25/2017	87,292.08	1.67	64.79	87,292.26	86,608.72
CCCIT 2017-A9 A9 DTD 10/02/2017 1.800% 09/20/2021	17305EGH2	140,000.00	AAA	NR	9/25/2017	10/2/2017	139,989.57	1.80	707.00	139,992.66	138,870.94
JOHN DEERE ABS 2017-B A3 DTD 07/15/2017 1.820% 10/15/2021	47788BAD6	30,000.00	NR	Aaa	7/11/2017	7/18/2017	29,997.80	1.82	24.27	29,998.48	29,661.05
ALLY ABS 2017-4 A3 DTD 08/23/2017 1.750% 12/15/2021	02007FAC9	100,000.00	AAA	NR	8/15/2017	8/23/2017	99,998.71	1.75	77.78	99,999.11	99,021.04
HAROT 2018-1 A3 DTD 02/28/2018 2.640% 02/15/2022	43814UAC3	125,000.00	AAA	Aaa	2/22/2018	2/28/2018	124,983.84	2.65	146.67	124,987.10	124,256.69
FORDO 2017-C A3 DTD 11/21/2017 2.010% 03/15/2022	34532AAD5	140,000.00	AAA	NR	11/14/2017	11/21/2017	139,974.76	2.02	125.07	139,981.02	138,352.76
ALLYA 2017-5 A3 DTD 11/22/2017 1.990% 03/15/2022	02007YAC8	110,000.00	AAA	Aaa	11/14/2017	11/22/2017	109,991.46	1.99	97.29	109,993.58	108,904.86
JDOT 2018-A A3 DTD 02/28/2018 2.660% 04/15/2022	47788CAC6	35,000.00	NR	Aaa	2/21/2018	2/28/2018	34,997.48	2.66	41.38	34,997.95	34,886.65
NAROT 2018-A A3 DTD 02/28/2018 2.650% 05/15/2022	65478DAD9	75,000.00	AAA	Aaa	2/21/2018	2/28/2018	74,991.43	2.66	88.33	74,993.06	74,642.96
Security Type Sub-Total		1,131,491.01					1,131,377.17	1.95	2,428.85	1,131,426.32	1,123,209.07
Managed Account Sub Total		11,683,925.00					11,730,896.92	2.10	65,391.75	11,686,635.62	11,529,072.22

FPUD - INVESTMENT PORTFOLIO

Portfolio Holdings

Securities Sub-Total	\$11,683,925.00	\$11,730,896.92	2.10%	\$65,391.75	\$11,686,635.62	\$11,529,072.22
Accrued Interest						\$65,391.75
Total Investments						\$11,594,463.97

Bolded items are forward settling trades.

IMPORTANT DISCLOSURES

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

GLOSSARY

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount and expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

GLOSSARY

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.

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PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.

FALLBROOK PUBLIC UTILITY DISTRICT

OPEB Pre-Funding Trust Program &
Pension Rate Stabilization Program (PRSP) Client Review
February 14, 2019

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PARS TRUST TEAM



Trust Administrator & Consultant

- Recordkeeping/sub-trust accounting
- Actuarial coordination
- Monitor contributions/process disbursements
- Monitor plan compliance
- Ongoing client liaison

Trustee

- Safeguard plan assets
- Oversight protection
- Plan fiduciary
- Custodian of assets

Investment Manager

- Investment sub-advisor to U.S. Bank
- Open architecture
- Investment strategy and asset allocation development
- Investment policy assistance

Corporate Experience

35 years (1984 – 2019)

156 years (1863 – 2019)

100 years (1919 – 2019)

Plans Under Administration

1,600+ plans, 850+ public agencies, 400,000+ participants

Dollars under Administration

Over \$3.2 billion

Over \$4 trillion

Over \$14.8 billion under management

SUMMARY OF AGENCY'S OPEB PLAN

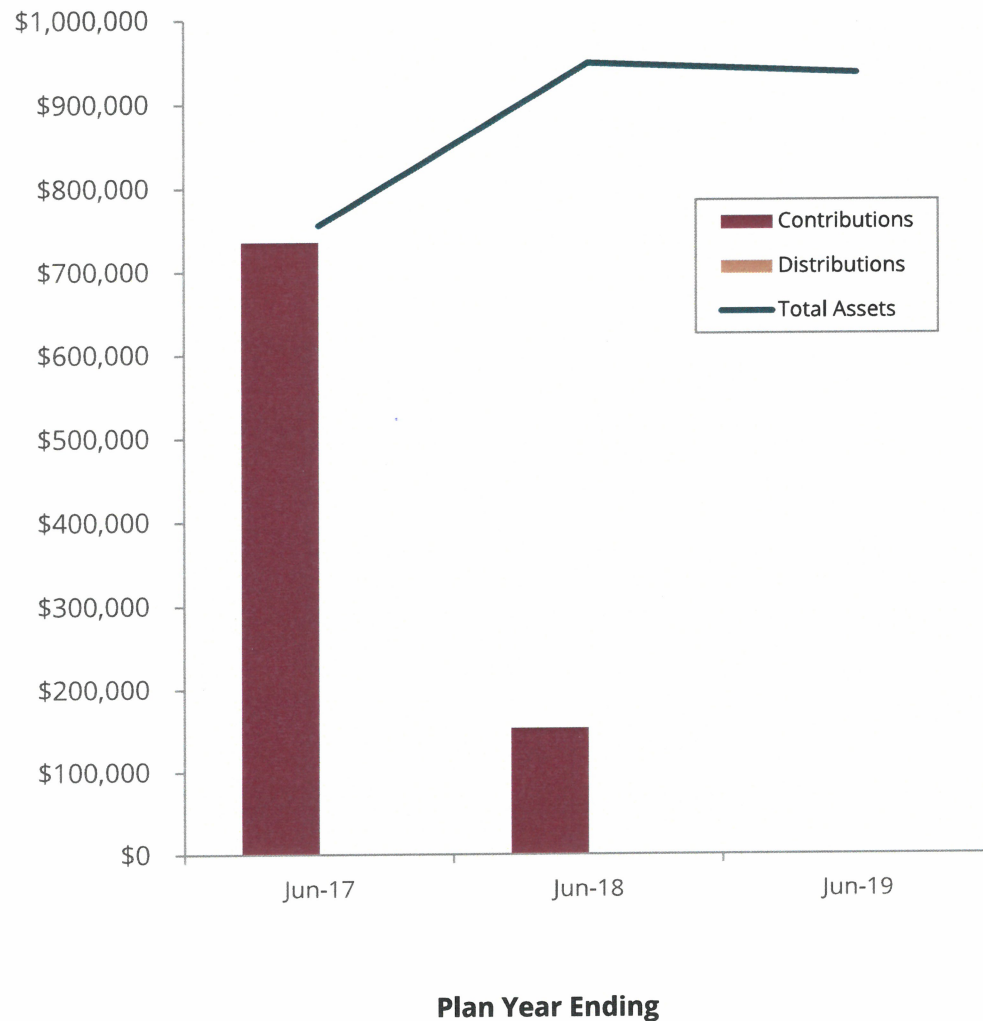
Plan Type:	IRC Section 115 Irrevocable Exclusive Benefit Trust
Trustee Approach:	Discretionary
Plan Effective Date:	September 26, 2016
Plan Administrators:	Jack Bebee, General Manager
Current Investment Strategy:	Conservative (Active) Strategy; Pooled Account

AS OF DECEMBER 31, 2018:

Initial Contribution:	February 2017: \$736,000
Additional Contributions:	\$153,000
Total Contributions:	\$889,000
Disbursements:	\$0.00
Total Investment Earnings:	\$50,482
Account Balance:	\$935,700

SUMMARY OF AGENCY'S OPEB PLAN

CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF DECEMBER 31, 2018:



Year	Contributions	Distributions	Total Assets
Jun-17	\$736,000	\$0	\$755,952
Jun-18	\$153,000	\$0	\$947,784
Jun-19	\$0	\$0	\$935,700

**Plan Year Ending June 2019 is based on 6 months of activity.*

OPEB ACTUARIAL RESULTS

- We have received the actuarial report by Demsey Filliger & Associates dated September 22, 2016 with a valuation date as of July 1, 2016. In the table below, we have summarized the results.

Demographic Study | Valuation Date: July 1, 2016

Actives	69
Retirees	4
Total	73
Average Active Age	44.25
Average Active Agency Service	9.99

OPEB ACTUARIAL RESULTS

	July 1, 2016 Valuation 4.00% Discount Rate (Pre-Funding)
--	--

Actuarial Accrued Liability (AAL)	\$849,667
Actuarial Value of Assets	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$849,667
Annual Required Contribution (ARC)	\$113,475
Annual Benefit Payments (Pay-as-you-Go) for FY 2018-19	\$22,837

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

SUMMARY OF AGENCY'S PENSION PLAN

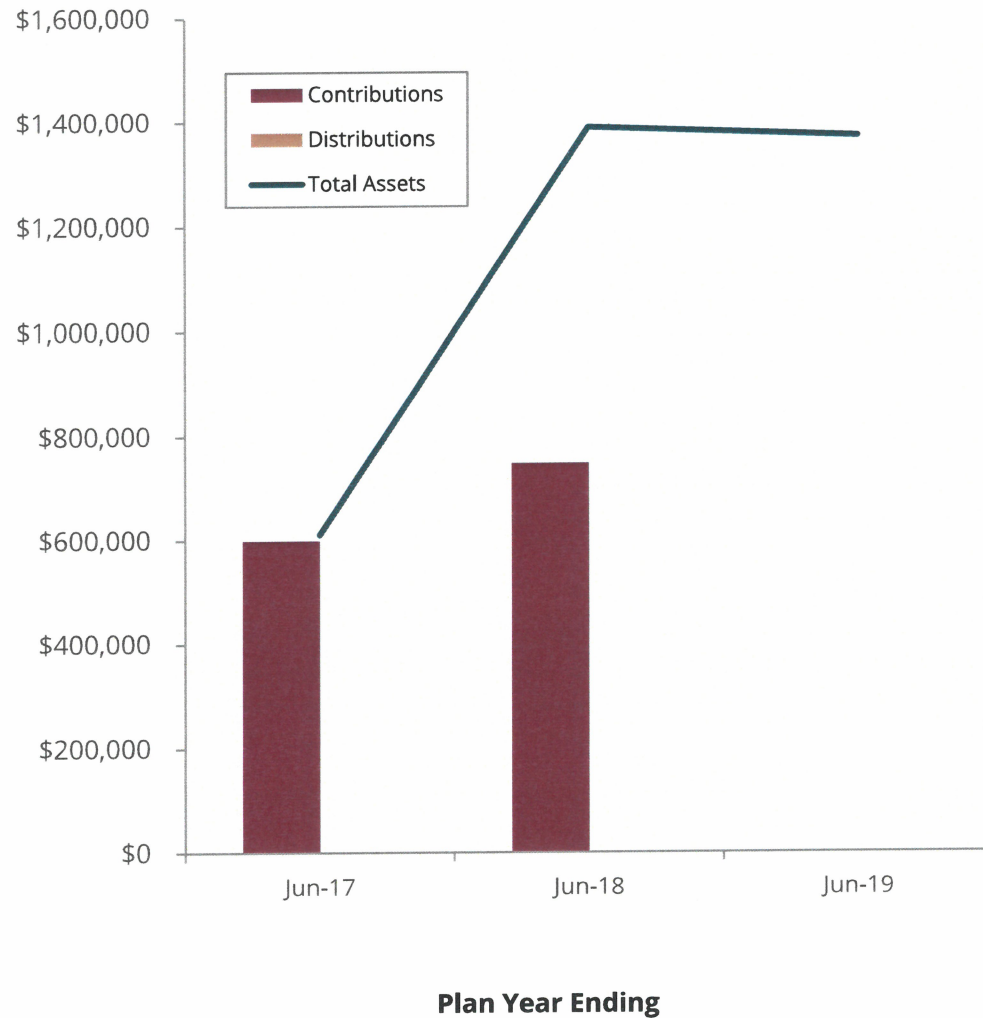
Plan Type:	IRC Section 115 Irrevocable Exclusive Benefit Trust
Trustee Approach:	Discretionary
Plan Effective Date:	September 26, 2016
Plan Administrators:	Jack Bebee, General Manager
Current Investment Strategy:	Conservative (Active) Strategy; Pooled Account

AS OF DECEMBER 31, 2018:

Initial Contribution:	February 2017: \$100,000
Additional Contributions:	\$1,247,000
Total Contributions:	\$1,347,000
Disbursements:	\$0.00
Total Investment Earnings:	\$27,822
Account Balance:	\$1,371,041

SUMMARY OF AGENCY'S PENSION PLAN

CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF DECEMBER 31, 2018:



Year	Contributions	Distributions	Total Assets
Jun-17	\$600,000	\$0	\$610,483
Jun-18	\$747,000	\$0	\$1,388,748
Jun-19	\$0	\$0	\$1,371,041

**Plan Year Ending June 2019 is based on 6 months of activity.*



PENSION FUNDING STATUS

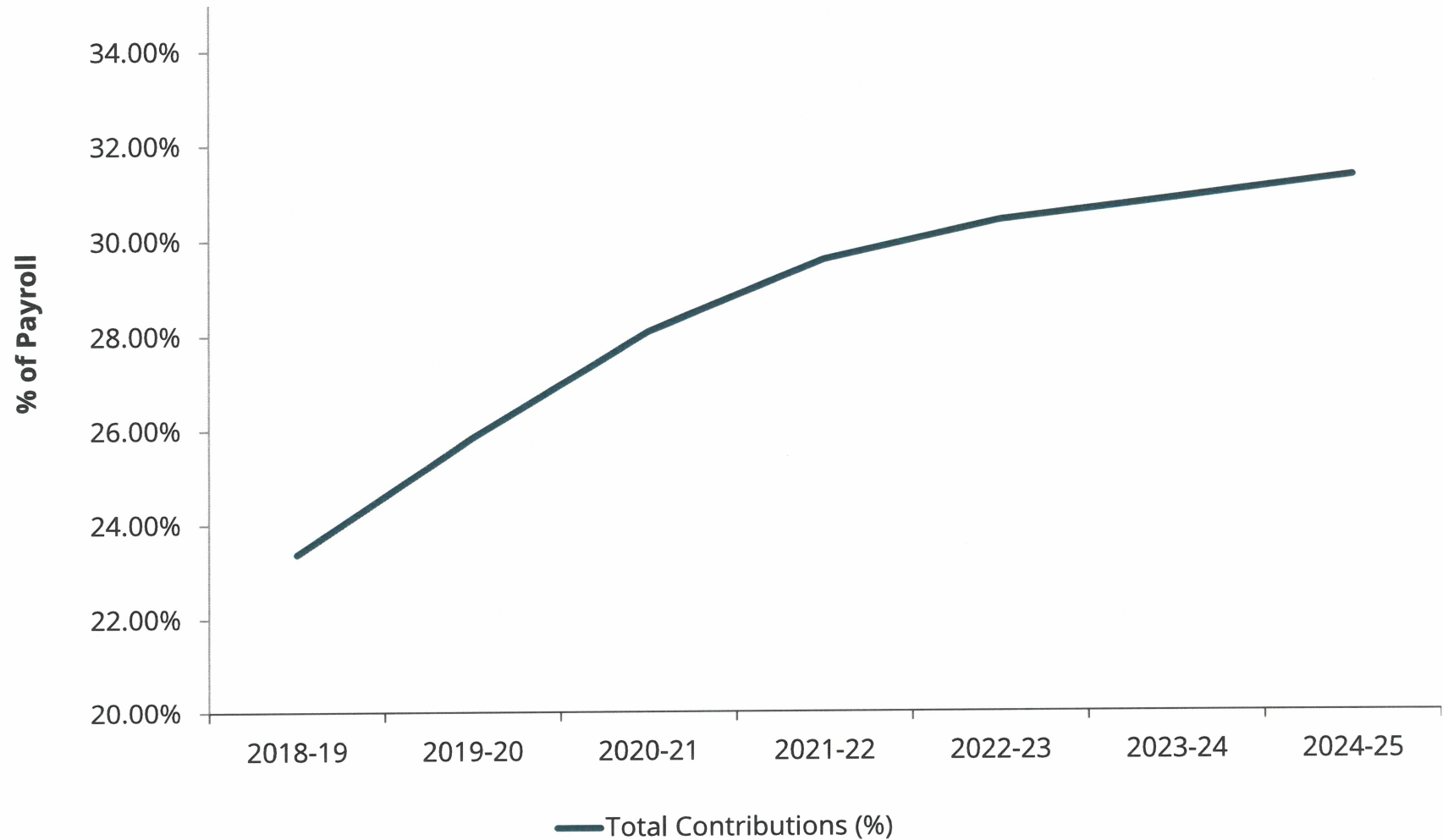
As of June 30, 2017, Fallbrook Public Utility District's CalPERS pension plan is funded as follows*:

Actuarial Liability	\$46.8 M
Assets	\$34.6 M
Unfunded Liability	\$12.2 M
Funded Ratio	73.9%
Employer Contribution Amount (FY 18-19)	\$1.3 M
Projected Employer Contribution Amount (FY 24-25)	\$2.1 M (58.9% ↑)

* Data from Agency's 2017-18 CalPERS actuarial valuation

PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

Projected misc. contributions increase from \$1.3M to \$2.1M* (58.9% ↑)



* Data from Agency's 2017-18 CalPERS actuarial valuation

HIGHMARK CAPITAL MANAGEMENT INVESTMENT REVIEW

PARS: Fallbrook Public Utility District – OPEB

February 2019

**Presented by:
Christiane Tsuda – Senior Portfolio Manager**

DISCUSSION HIGHLIGHTS – Fallbrook Public Utility District - OPEB

Asset Allocation (as of 1/31/2019)

- Stocks 16.82% (5% - 20%); Bonds 77.16% (60% - 95%); Cash 6.02% (0% - 20%)
 - Large Cap 8.56%, Mid Cap 1.33%, Small Cap 3.23%, International 3.27%, REIT 0.43%
- Conservative (Active)*

Performance (as of 1/31/2019) Gross of investment fees, net of fund level fees

- 3 Months: 2.43%
- 1 Year: -0.95%
- Inception to Date: 5.15% (Feb. 2017)
- Bonds – impacted by rising interest rates
- Stocks – increased volatility

Outlook

- US Economy – US Economy in leadership position globally
Consumer, employment, wages, inflation, housing,
- Global Economies – Europe (Italy), Emerging Markets, China
- Federal Reserve – Rate hikes, Quantitative Tightening, data dependent?
- 10-year yield – 3.00% - 3.25% (currently 2.65%)
- Corporate earnings – Q4 earnings key to market; forward guidance?
- Geopolitical pressures – Russia investigation, Trade negotiations

Selected Period Performance
FALLBROOK PUBLIC UTILITY DISTRICT - OPEB
AGG000546
Period Ending: 1/31/2019

Sector	Year to Date (1 Month)	3 Months	6 Months	1 Year	Inception to Date 02/01/2017
Cash Equivalents	.19	.55	1.03	1.82	1.30
<i>Lipper Money Market Funds Index</i>	.19	.54	.99	1.72	1.22
Total Fixed Income	.99	2.88	2.36	1.83	2.00
<i>BBG Barclays US Aggregate Bd Index (USD)</i>	1.06	3.53	2.71	2.25	2.20
Total Equities	8.84	1.38	-4.65	-5.32	8.41
Large Cap Funds	8.04	.31	-3.06	-3.26	10.42
<i>S&P 500 Composite Index</i>	8.01	.26	-3.00	-2.31	11.12
Mid Cap Funds	10.61	2.04	-4.14	-3.77	7.31
<i>Russell Midcap Index</i>	10.79	2.25	-3.95	-2.90	7.98
Small Cap Funds	11.35	-.53	-9.42	-3.68	6.28
<i>Russell 2000 Index (USD)</i>	11.25	-.41	-9.62	-3.52	6.33
REIT Funds	11.85	7.70	4.32	9.91	5.37
<i>Wilshire REIT Index</i>	11.46	6.93	3.87	10.29	5.49
International Equities	7.69	4.58	-6.42	-13.17	5.92
<i>MSCI EAFE Index (Net)</i>	6.57	1.27	-7.80	-12.51	5.66
<i>MSCI EM Free Index (Net USD)</i>	8.76	10.24	-2.60	-14.24	9.97
Total Managed Portfolio	4.22	2.43	-.66	-.95	5.15

Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

ASSET ALLOCATION – Fallbrook Public Utility District - OPEB

As of January 31, 2019

Current Asset Allocation		Investment Vehicle	
Equity		Range: 5% - 20%	16.82%
Large Cap Core	COFYX	Columbia Contrarian Core Cl Y	1.28%
	DODGX	Dodge & Cox Stock Fund	2.29%
	VGIAX	Vanguard Growth & Income Admiral Shares	3.37%
Large Cap Growth	HNACX	Harbor Capital Appreciation Instl	0.81%
	PRUFX	T. Rowe Price Growth Stock Fund	0.81%
Mid Cap Core	IWR	iShares Russell Mid Cap ETF	1.33%
Small Cap Value	UBVFX	Undiscovered Managers Behavioral Value R6	1.85%
Small Cap Growth	PRJIX	T. Rowe Price New Horizons Fund	1.37%
International Core	DODFX	Dodge & Cox International Stock Fund	0.66%
	DFALX	DFA Large Cap International Portfolio	0.93%
International Growth	MGRDX	MFS International Growth Fund	0.63%
Emerging Markets	HHHYX	Schroder Emerging Market Equity	1.05%
REIT	VNQ	Vanguard REIT ETF	0.43%
Fixed Income		Range: 60% - 95%	77.16%
Short-Term	VFSUX	Vanguard Short-Term Corp Adm Fund	21.47%
Intermediate-Term	DBLFX	DoubleLine Core Fixed Income Cl I	18.52%
	PTRQX	Prudential Total Return Bd Cl Q	18.60%
	PTTRX	PIMCO Total Return Instl Fund	18.57%
Cash		Range: 0% - 20%	6.02%
	FGZXX	First American Prime Obligations Fund	6.02%
TOTAL			100.00%

Fallbrook Public Utility District - OPEB

For Period Ending January 31, 2019

LARGE CAP EQUITY FUNDS							
Fund Name	1-Month Return	3-Month Return	Year-to- Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
Columbia Contrarian Core Inst3	8.55	-0.48	8.55	-6.12	11.32	9.79	15.30
Vanguard Growth & Income Adm	7.74	-0.31	7.74	-2.66	13.65	10.93	14.76
Harbor Capital Appreciation Retirement	10.16	2.36	10.16	-0.62	17.28	12.76	16.54
T. Rowe Price Growth Stock I	10.90	4.39	10.90	0.70	18.02	12.93	17.60
Dodge & Cox Stock	8.51	-0.38	8.51	-4.60	15.82	9.55	15.28
S&P 500 TR USD	8.01	0.26	8.01	-2.31	14.02	10.96	15.00
MID CAP EQUITY FUNDS							
iShares Russell Mid-Cap ETF	10.76	2.30	10.76	-2.99	13.12	8.73	15.91
SMALL CAP EQUITY FUNDS							
Undiscovered Managers Behavioral Val R6	13.60	-0.50	13.60	-4.81	11.77	8.23	18.18
T. Rowe Price New Horizons I	11.19	1.18	11.19	9.24	21.95	12.94	21.28
Russell 2000 TR USD	11.25	-0.41	11.25	-3.52	14.71	7.26	14.52
REAL ESTATE FUNDS							
Vanguard Real Estate ETF	11.76	7.73	11.76	9.70	7.39	8.90	15.48
INTERNATIONAL EQUITY FUNDS							
Dodge & Cox International Stock	8.51	1.26	8.51	-16.34	9.64	2.06	10.04
DFA Large Cap International I	7.50	1.72	7.50	-12.04	8.11	2.84	8.22
MFS International Growth R6	6.12	2.85	6.12	-7.03	11.14	5.99	10.42
MSCI EAFE NR USD	6.57	1.27	6.57	-12.51	7.74	2.66	8.11
Hartford Schrodgers Emerging Mkts Eq Y	9.72	9.66	9.72	-14.58	15.31	5.30	10.07
MSCI EM Free Index	8.76	10.24	8.76	-14.24	14.89	4.77	9.66
BOND FUNDS							
PIMCO Total Return Instl	1.20	2.88	1.20	1.94	2.53	2.52	4.77
Vanguard Short-Term Investment-Grade Adm	0.82	1.63	0.82	2.17	2.06	1.83	3.44
PGIM Total Return Bond R6	1.61	3.62	1.61	1.89	3.74	3.66	6.45
DoubleLine Core Fixed Income I	1.33	2.60	1.33	1.82	3.08	3.17	--
BBgBarc US Agg Bond TR USD	1.06	3.53	1.06	2.25	1.95	2.44	3.68

Source: SEI Investments, Morningstar Investments

Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.

PARS: Fallbrook Public Utility District - Pension

February 2019

**Presented by:
Christiane Tsuda – Senior Portfolio Manager**

DISCUSSION HIGHLIGHTS – Fallbrook Public Utility District - Pension

Asset Allocation (as of 1/31/2019)

- Stocks 16.82% (5% - 20%); Bonds 77.16% (60% - 95%); Cash 6.02% (0% - 20%)
 - Large Cap 8.56%, Mid Cap 1.33%, Small Cap 3.23%, International 3.27%, REIT 0.43%
- Conservative (Active)*

Performance (as of 1/31/2019) Gross of investment fees, net of fund level fees

- 3 Months: 2.47%
- 1 Year: -0.49%
- Inception to Date: 4.50% (Feb. 2017)
- Bonds – impacted by rising interest rates
- Stocks – increased volatility

Outlook

- US Economy – US Economy in leadership position globally
Consumer, employment, wages, inflation, housing,
- Global Economies – Europe (Italy), Emerging Markets, China
- Federal Reserve – Rate hikes, Quantitative Tightening, data dependent?
- 10-year yield – 3.00% - 3.25% (currently 2.65%)
- Corporate earnings – Q4 earnings key to market; forward guidance?
- Geopolitical pressures – Russia investigation, Trade negotiations

Selected Period Performance
FALLBROOK PUBLIC UTILITY DISTRICT - PENSION
AGG000547

Period Ending: 1/31/2019

Sector	Year to Date (1 Month)	3 Months	6 Months	1 Year	Inception to Date 02/01/2017
Cash Equivalents	.19	.54	1.03	1.81	1.27
<i>Lipper Money Market Funds Index</i>	<i>.19</i>	<i>.54</i>	<i>.99</i>	<i>1.72</i>	<i>1.22</i>
Total Fixed Income	.93	2.95	2.42	1.93	2.02
<i>BBG Barclays US Aggregate Bd Index (USD)</i>	<i>1.06</i>	<i>3.53</i>	<i>2.71</i>	<i>2.25</i>	<i>2.20</i>
Total Equities	8.80	1.38	-4.69	-5.35	8.33
Large Cap Funds	8.00	.30	-3.05	-3.17	10.48
<i>S&P 500 Composite Index</i>	<i>8.01</i>	<i>.26</i>	<i>-3.00</i>	<i>-2.31</i>	<i>11.12</i>
Mid Cap Funds	10.61	2.07	-4.15	-3.65	7.39
<i>Russell Midcap Index</i>	<i>10.79</i>	<i>2.25</i>	<i>-3.95</i>	<i>-2.90</i>	<i>7.98</i>
Small Cap Funds	11.26	-.56	-9.63	-3.94	6.16
<i>Russell 2000 Index (USD)</i>	<i>11.25</i>	<i>-.41</i>	<i>-9.62</i>	<i>-3.52</i>	<i>6.33</i>
REIT Funds	11.87	7.72	4.35	9.68	5.13
<i>Wilshire REIT Index</i>	<i>11.46</i>	<i>6.93</i>	<i>3.87</i>	<i>10.29</i>	<i>5.49</i>
International Equities	7.64	4.52	-6.43	-13.12	5.90
<i>MSCI EAFE Index (Net)</i>	<i>6.57</i>	<i>1.27</i>	<i>-7.80</i>	<i>-12.51</i>	<i>5.66</i>
<i>MSCI EM Free Index (Net USD)</i>	<i>8.76</i>	<i>10.24</i>	<i>-2.60</i>	<i>-14.24</i>	<i>9.97</i>
Total Managed Portfolio	3.55	2.47	.00	-.49	4.50

Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

ASSET ALLOCATION – Fallbrook Public Utility District - Pension

As of January 31, 2019

Current Asset Allocation		Investment Vehicle	
Equity		Range: 5% - 20%	16.82%
Large Cap Core	COFYX	Columbia Contrarian Core Cl Y	1.28%
	DODGX	Dodge & Cox Stock Fund	2.29%
	VGIAX	Vanguard Growth & Income Admiral Shares	3.37%
Large Cap Growth	HNACX	Harbor Capital Appreciation Instl	0.81%
	PRUFX	T. Rowe Price Growth Stock Fund	0.81%
Mid Cap Core	IWR	iShares Russell Mid Cap ETF	1.33%
Small Cap Value	UBVFX	Undiscovered Managers Behavioral Value R6	1.85%
Small Cap Growth	PRJIX	T. Rowe Price New Horizons Fund	1.37%
International Core	DODFX	Dodge & Cox International Stock Fund	0.66%
	DFALX	DFA Large Cap International Portfolio	0.93%
International Growth	MGRDX	MFS International Growth Fund	0.63%
Emerging Markets	HHHYX	Schroder Emerging Market Equity	1.05%
REIT	VNQ	Vanguard REIT ETF	0.43%
Fixed Income		Range: 60% - 95%	77.16%
Short-Term	VFSUX	Vanguard Short-Term Corp Adm Fund	21.47%
Intermediate-Term	DBLFX	DoubleLine Core Fixed Income Cl I	18.52%
	PTRQX	Prudential Total Return Bd Cl Q	18.60%
	PTRRX	PIMCO Total Return Instl Fund	18.57%
Cash		Range: 0% - 20%	6.02%
	FGZXX	First American Prime Obligations Fund	6.02%
TOTAL			100.00%

Fallbrook Public Utility District - Pension For Period Ending January 31, 2019

LARGE CAP EQUITY FUNDS							
Fund Name	1-Month Return	3-Month Return	Year-to- Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
Columbia Contrarian Core Inst3	8.55	-0.48	8.55	-6.12	11.32	9.79	15.30
Vanguard Growth & Income Adm	7.74	-0.31	7.74	-2.66	13.65	10.93	14.76
Harbor Capital Appreciation Retirement	10.16	2.36	10.16	-0.62	17.28	12.76	16.54
T. Rowe Price Growth Stock I	10.90	4.39	10.90	0.70	18.02	12.93	17.60
Dodge & Cox Stock	8.51	-0.38	8.51	-4.60	15.82	9.55	15.28
S&P 500 TR USD	8.01	0.26	8.01	-2.31	14.02	10.96	15.00
MID CAP EQUITY FUNDS							
iShares Russell Mid-Cap ETF	10.76	2.30	10.76	-2.99	13.12	8.73	15.91
SMALL CAP EQUITY FUNDS							
Undiscovered Managers Behavioral Val R6	13.60	-0.50	13.60	-4.81	11.77	8.23	18.18
T. Rowe Price New Horizons I	11.19	1.18	11.19	9.24	21.95	12.94	21.28
Russell 2000 TR USD	11.25	-0.41	11.25	-3.52	14.71	7.26	14.52
REAL ESTATE FUNDS							
Vanguard Real Estate ETF	11.76	7.73	11.76	9.70	7.39	8.90	15.48
INTERNATIONAL EQUITY FUNDS							
Dodge & Cox International Stock	8.51	1.26	8.51	-16.34	9.64	2.06	10.04
DFA Large Cap International I	7.50	1.72	7.50	-12.04	8.11	2.84	8.22
MFS International Growth R6	6.12	2.85	6.12	-7.03	11.14	5.99	10.42
MSCI EAFE NR USD	6.57	1.27	6.57	-12.51	7.74	2.66	8.11
Hartford Schroders Emerging Mkts Eq Y	9.72	9.66	9.72	-14.58	15.31	5.30	10.07
MSCI EM Free Index	8.76	10.24	8.76	-14.24	14.89	4.77	9.66
BOND FUNDS							
PIMCO Total Return Instl	1.20	2.88	1.20	1.94	2.53	2.52	4.77
Vanguard Short-Term Investment-Grade Adm	0.82	1.63	0.82	2.17	2.06	1.83	3.44
PGIM Total Return Bond R6	1.61	3.62	1.61	1.89	3.74	3.66	6.45
DoubleLine Core Fixed Income I	1.33	2.60	1.33	1.82	3.08	3.17	--
BBgBarc US Agg Bond TR USD	1.06	3.53	1.06	2.25	1.95	2.44	3.68

Source: SEI Investments, Morningstar Investments

Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.

M E M O

TO: Fiscal Policy and Insurance Committee
FROM: Jack Bebee, General Manager
David Shank, Acting General Manager/CFO
DATE: February 14, 2019
SUBJECT: Pension and Other Post Employment Benefit Obligation Cost Reduction Strategy

Purpose

To update the District's strategy for offsetting costs associated with existing pension and other post-employment benefit (OPEB) obligations to help manage long-term cost of these benefits and the associated impacts on rates.

Summary

The District carries long-term obligations due to their existing pension and OPEB benefits. The OPEB benefit is associated with the retiree healthcare program. The District pension program is administered through the Public Employee Retirement System (PERS). PERS requires annual payments from the District to fund its pension obligation to employees. The PERS annual payment is made up of two parts 1) the cost of pension benefits earned by the active employees called the Annual Required Contribution (ARC); 2) a payment for benefits already earned but not fully funded by the District called the Actuarial Unfunded Liability (AUL). In the past, PERS over-estimated expected returns on investments and didn't collect sufficient payment from participants for the benefits earned. This created a significant unfunded liability for participants. Due to pension reform and new pension reporting requirements, the District is making annual payments to fully fund its AUL in 30-years. The State also recognized the need to help reduce long-term pension costs and passed the Public Employee Pension Reform Act (PEPRA) in 2013. PEPRA reduced benefits for new employees that were not previously in PERS. 40% of District employees are now in PEPRA.

Due to concerns over the impact of these obligations on the District's expenses and fiscal sustainability, the District's Board of Directors has taken a progressive approach to evaluate alternatives to reduce these costs. The District evaluated the following options:

1. Transition out of PERS into a defined benefit program
2. Pay down the existing pension obligations to PERS
3. Set aside money in a trust to help off-set pension costs

In order to transition out of the PERS program, the District would have to fund all accrued current and future pension costs (\$46 million as of 6/30/17) and create or pay for a pension administrator to manage the investments and payments to retirees vested in PERS. This was determined to not be financially viable at this time. The District determined that setting aside funds to help off-set the pension and OPEB obligations was the best path forward. Instead of just putting these funds into PERS, who has underperformed on returns in the

past, the funds would be placed into a third party trust held for the District's pension and OPEB costs. The District selected the Public Agency Retirement Services (PARS) to administer the trust. By utilizing PARS, the District can invest funds to achieve a higher rate of return to help off-set pension and OPEB costs. The District also elected to set-aside some funds from the sale of the Santa Margarita Property to help off-set the pension obligations.

A summary of the Districts current UAL and OPEB and funds held to off-set these obligations is shown in Table 1:

Table 1 – Summary of Districts UAL and OPEB Liability and Offset Funds

Obligation	Pension (UAL component)	OPEB
Liability*	\$12,649,005	\$1,039,721
Funds Held**	\$5,150,144	\$935,700
*As of 6/30/17 – date of last PERS and OPEB valuation		
**As of 12/31/18 – Includes funds held by PARS and set aside in Pension Obligation Off-set Fund.		

As shown in Table 1, the District is almost fully funded for OPEB obligations, but has a smaller percentage of funds set aside for pension obligations. The funds held for pension costs can be used to help off-set UAL costs or other pension costs. The UAL is driving an increase in annual pension costs for the District. The annual payment schedule to PERS is included in Attachment A. As shown on Attachment A, there is an option for a 30-year, 15-year and 10-year schedule to pay down the UAL. The District has been paying down the UAL on a 30-year schedule.

The total payments under the different payment schedules is summarized in Table 2 below:

Table 2 – Total PERS Payments for paying off UAL

Schedule	30 year	15 year	10 year
Total Payment	\$24,679,396	\$21,230,686	\$17,908,640
Savings		\$3,448,710	\$6,770,756

The District has also been contributing an additional amount into PARS to help off-set future obligations. A payment of \$500,000 into PARS for pension obligations and \$150,000 in PARS for OPEB is scheduled this Fiscal Year. A long-term additional pension payment of \$650,000 annually was included in the rate setting process.

Pension and OPEB Alternatives

A number of long-term strategies are available to help reduce long-term pension costs for the District:

1. Use existing funds held to pay down the UAL to PERS and re-amortize the balance

2. Continue to pay on the 30-year amortization schedule and continue annual payments into PARS
3. Reduce the amortization period and cease future payments into PARS, but use investment returns to continue to grow PARS balance.

Option 1 – Use existing funds held to pay down the UAL to PERS and re-amortize the balance and continue annual payments in PARS

While this strategy would reduce the annual payment by almost half, it would allocate all existing District funds into PERS. If PERS was to under-perform in the short-term, the District would have no supplemental resources to offset the increase in PERS payments associated with this underperformance.

Option 2 – Continue to pay on the 30-year amortization schedule and ramp down annual payments into PARS

This option would result in the highest total principal and interest payment to PERS through the life of the UAL obligation, but would have minimized the annual costs. The annual contribution to PARS could be reduced to off-set the increase in the required annual UAL payment to PERS. This approach would keep the overall annual pension payments to PARS and PERS flat as the UAL payment ramps up.

Option 3 - Reduce the amortization period and cease future payments into PARS, but use investment returns to continue to grow PARS balance.

This option would balance the payment of funds to PERS while maintaining reserves in PARS. If the District utilized the additional annual projected PARS payments to reduce the amortization schedule from 30 to 10 years, the District could save about 30% on the repayment amount. In addition, the District could continue to grow the PARS balance with the ability to use PARS returns to help offset annual pension costs.

For all these options, given the funding level for OPEB, it is also recommended to make the current budgeted OPEB payment for this Fiscal Year of \$150,000 and evaluate any needs for future OPEB payments into PARS on an annual basis.

Recommended Action

Staff recommends Option 3 using a balanced approach among PERS and PARS for implementation in the next fiscal year. This year funds held in the Pension Obligation Off-set Fund and the budgeted transfer of \$650,000 be transferred into the PARS account with four (4) equal payments through the end of the Fiscal Year. For the next Fiscal Year, the budget will reflect a 10-year amortization schedule payment for the PERS UAL and no additional payments into the PARS trust. Staff would work with the FP&I Committee to develop a PARS account investment strategy to provide long-term returns. The first PERS payment for a 10-year amortization schedule would be made in July 2019.

Attachment A

Amortization Schedule and Alternatives

Date	<u>Current Amortization Schedule</u>		<u>Alternate Schedules</u>			
	Balance	Payment	15 Year Amortization		10 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2019	12,668,951	877,520	12,668,951	1,151,999	12,668,951	1,571,195
6/30/2020	12,678,676	972,478	12,394,421	1,185,119	11,960,296	1,616,366
6/30/2021	12,590,766	1,064,782	12,065,689	1,219,191	11,153,483	1,662,837
6/30/2022	12,400,892	1,117,369	11,677,837	1,254,243	10,240,050	1,710,644
6/30/2023	12,142,793	1,147,190	11,225,566	1,290,303	9,210,884	1,759,825
6/30/2024	11,835,097	1,180,172	10,703,162	1,327,399	8,056,171	1,810,420
6/30/2025	11,470,938	1,214,101	10,104,466	1,365,562	6,765,345	1,862,469
6/30/2026	11,045,238	1,249,007	9,422,843	1,404,821	5,327,030	1,916,015
6/30/2027	10,552,526	1,284,916	8,651,144	1,445,210	3,728,984	1,971,101
6/30/2028	9,986,906	1,321,857	7,781,669	1,486,760	1,958,033	2,027,770
6/30/2029	9,342,020	1,359,861	6,806,129	1,529,504		
6/30/2030	8,611,023	1,398,957	5,715,594	1,573,477		
6/30/2031	7,786,541	1,439,177	4,500,457	1,618,715		
6/30/2032	6,860,632	1,417,469	3,150,373	1,665,253		
6/30/2033	5,890,074	1,393,324	1,654,213	1,713,129		
6/30/2034	4,874,157	1,342,542				
6/30/2035	3,837,175	1,259,883				
6/30/2036	2,810,615	545,521				
6/30/2037	2,449,435	505,564				
6/30/2038	2,103,449	462,858				
6/30/2039	1,776,606	445,021				
6/30/2040	1,444,540	457,815				
6/30/2041	1,075,148	359,496				
6/30/2042	780,797	351,520				
6/30/2043	473,365	287,085				
6/30/2044	210,374	152,719				
6/30/2045	67,468	51,606				
6/30/2046	18,915	19,589				
6/30/2047						
6/30/2048						
Totals		24,679,396		21,230,686		17,908,640
Interest Paid		12,010,446		8,561,736		5,239,689
Estimated Savings				3,448,710		6,770,756

* This schedule does not reflect the impact of adopted discount rate changes that will become effective beyond June 30, 2017. For Projected Employer Contributions, please see page 5.