

Attachment 1

PORTFOLIO HOLDINGS

Investment Type	No. of Investments	Amount Invested
CAMP	1	57,778,079
Federal Agency	13	53,662,303
Federal Home Loan Bank	4	15,333,656
Federal Home Loan Mortgage Co.	3	15,613,161
Federal Nat'l Mortgage Assc.	6	22,715,486
Federal Agency CMO	5	6,225,915
U.S. Treasury	18	70,507,459
Negotiable CD	8	43,518,115
Corporate Note	22	61,819,285
Total Invested	67	293,511,156

Additional, detailed information regarding security types and investment activity may be found in Attachment 2 accompanying this memo. Moreover, the addendum data will confirm continued compliance with the investment policy as well as with California Government Code.

RECENT ACTIVITY & FEDERAL AGENCY EXPOSURE

In December, our investment advisor sold U.S. Treasury, FNMA, and FHLB securities maturing between September and October 2016 to purchase U.S. Treasuries bonds maturing in September 2018 at a higher yield. We also sold FHLB and U.S. Treasury notes maturing in October and November 2016 to purchase higher yielding U.S. Treasury notes maturing in May 2018.

These trades resulted in a total of \$31,523 in realized losses for the month. Federal Agencies currently account for 18.3% of the City's portfolio; 5.2% is invested in the Federal Home Loan Bank (FHLB), 5.3% in the Federal Home Loan Mortgage Company (FHLMC), and 7.7% in the Federal National Mortgage Association (FNMA).

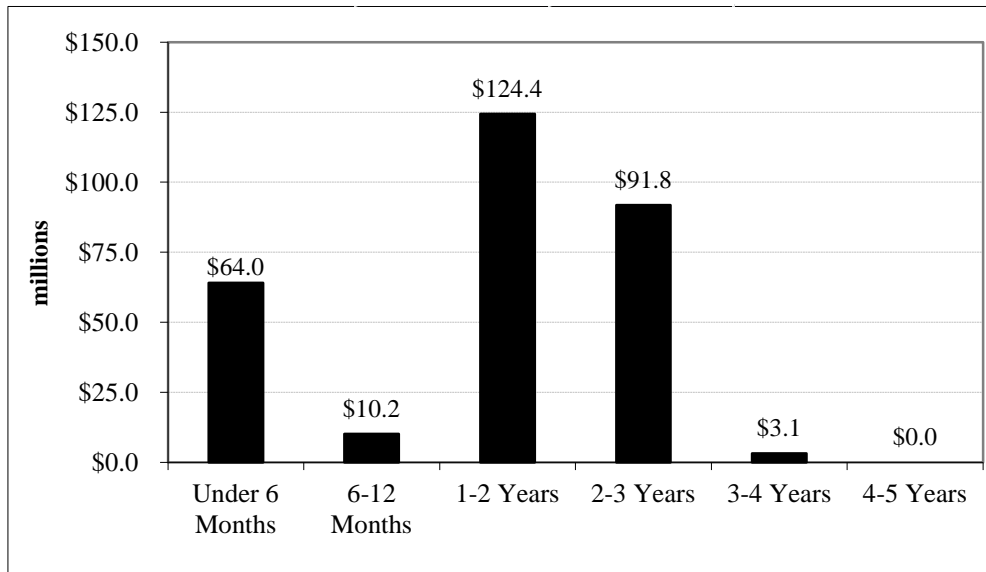
Sector Allocation

December 31, 2015 versus November 30, 2015

Sector	December 31, 2015		Change in Allocation	Permitted by Policy
	December 31, 2015	November 30, 2015		
U.S. Treasury	24.0%	19.4%	4.6%	100%
Federal Agency	18.3%	23.3%	-5.0%	100%
Federal Agency CMO	2.1%	2.1%	0.0%	20%
Commercial Paper	0.0%	0.0%	0.0%	25%
Negotiable CD	14.8%	14.7%	0.1%	30%
Corporate Note	21.1%	20.9%	0.1%	30%
CAMP	19.7%	19.5%	0.2%	100%

Percentages may not total to 100% due to rounding.

Maturity Distribution
December 31, 2015



PERFORMANCE

The City's portfolio has outperformed its benchmark over the past five years.

Annualized Total Return^{1,2,3,4}
December 31, 2015

	Past Year	Past 3 Years	Past 5 Years	Since Inception ⁵
City of Modesto Investment Portfolio	0.63%	0.53%	0.78%	2.41%
Merrill Lynch 1-3 Year U.S. Treasury Index	0.54%	0.51%	0.70%	2.19%

1. Performance is calculated on trade-date basis, gross (i.e., before fees) in accordance the CFA Institute's Global Investment Performance Standards (GIPS).
2. Merrill Lynch Indices provided by Bloomberg Financial Markets.
3. Performance numbers are presented on an annualized basis unless otherwise noted.
4. The performance calculation excludes any funds not invested in the 1-3 year strategy.
5. Inception date is 3/31/04

Average Portfolio Yields
December 31, 2015

	Past Month	Past 3 Months	Past Year	Past 3 Years	Past 5 Years
City of Modesto Investment Portfolio	1.05%	0.98%	0.84%	0.62%	0.66%

INVESTMENT POLICY

The City's investment policy embraces the following standards: the prudent investor rule, requiring the safety of principal, through prudent and safe investments; sufficient liquidity to meet expected and unforeseen cash flows; generation of an above-market, risk-adjusted rate of return (meaning, returns-expectations taking safety and liquidity into account). No investments longer than five years are permitted. Some investments have maturity limits of 270 days or less. The table below details the City's permitted investments.

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Maximum % per Issuer	Minimum Quality Requirements
Local Agency Bonds	5 Years	None	None	None
Treasury Obligations	5 Years	None	None	None
State Obligations	5 Years	None	None	A rating
CA Local Agency Obligations	5 Years	None	None	A rating
Federal Agencies	5 Years	None	None	None
Banker's Acceptances	180 days	40 percent	5 percent	Federal Reserve eligible
Commercial Paper	270 days	25 percent	5 percent	A1/P1 rating
Negotiable Certificates of Deposit	5 Years	30 percent	5 percent	A rating
Certificates of Deposit	1 Year	20%	5 percent	FDIC insured or collateralized
Repurchase Agreements	90 days	None	5 percent	None
Reverse Repurchase Agreements	92 days	20 percent of combined base value	5 percent	None
Medium Term Notes	5 Years	30 percent	5 percent	A rating
Money Market Mutual Funds	N/A	15 percent	10 percent	Multiple
Mortgage and Asset-backed Securities	5 Years	20 percent	5 percent	AA Rating
CAMP	N/A	None	None	N/A
LAIF	N/A	N/A	None	N/A

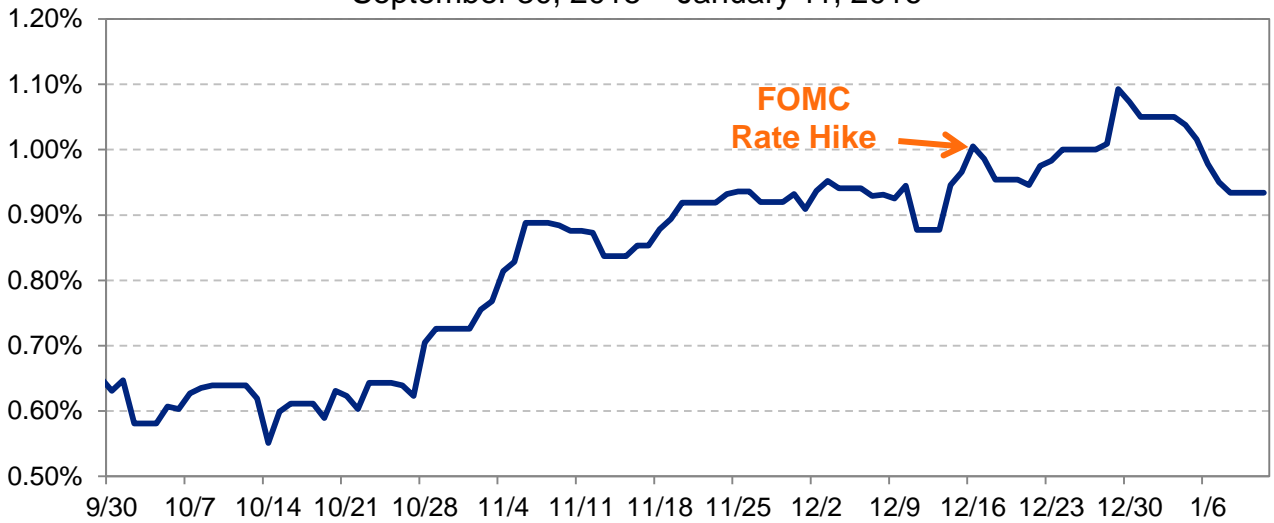
The City is not required to include a list of investments held by our bond trustees; however, staff believes the City Council should be kept informed of these investments. These investments are identified on **Attachment A**.

Economic Summary

Interest Rate Update

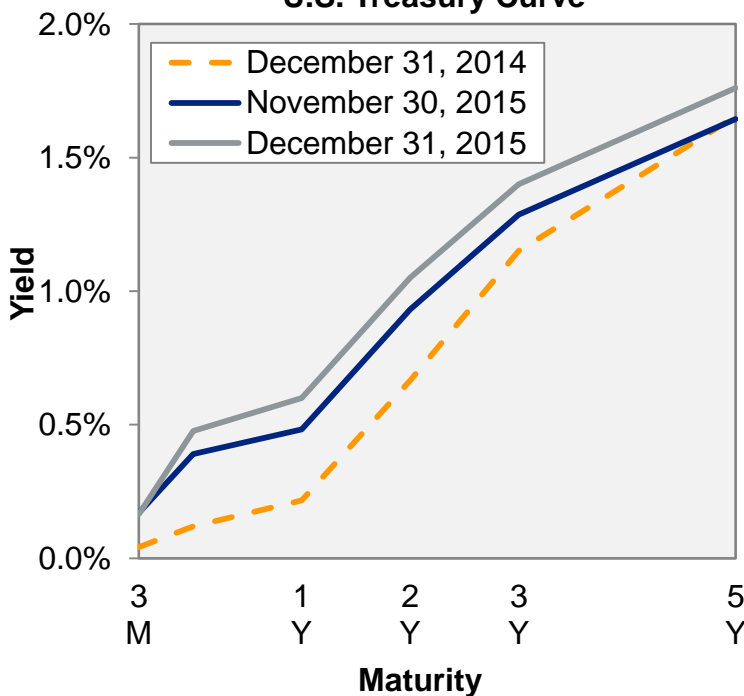
- Treasury yields continued to rise as the market priced in the Fed rate hike which effectively ended its seven-year zero-interest-rate policy.

2-Year Treasury Yield
September 30, 2015 – January 11, 2016



- Rates continued to increase in December for all maturities longer than 3 months.

U.S. Treasury Curve



	12/31/14	11/30/15	12/31/15
3-month	0.04%	0.17%	0.17%
6-month	0.12%	0.39%	0.48%
1-year	0.22%	0.48%	0.60%
2-year	0.67%	0.93%	1.05%
3-year	1.07%	1.22%	1.40%
5-year	1.65%	1.65%	1.76%

Economic Summary

FOMC Statement Highlights

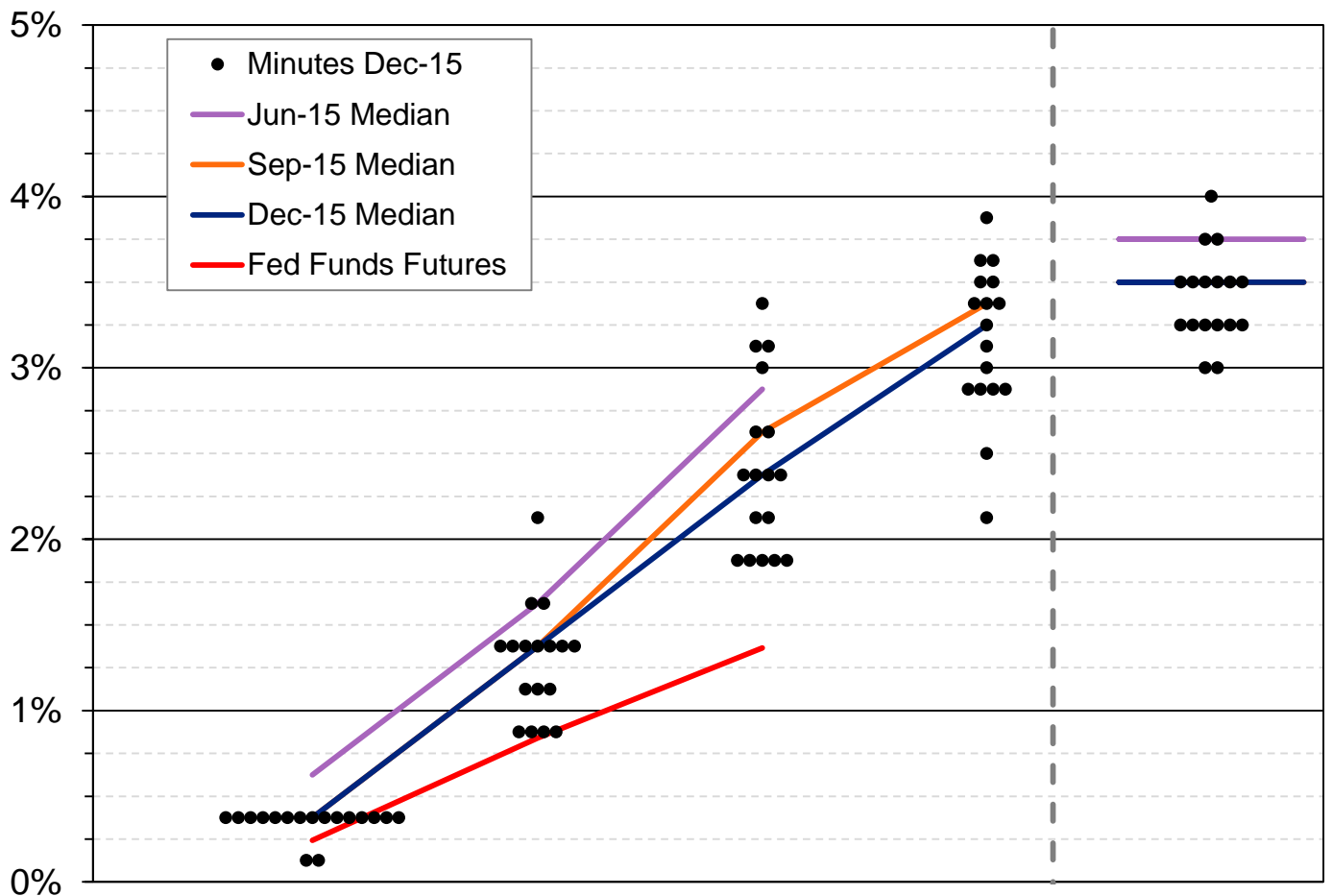


- A range of recent labor market indicators, including ongoing job gains and declining unemployment, shows further improvement and ***confirms that underutilization of labor resources has diminished appreciably since early this year.***
- Inflation has continued to run below the Committee's 2% longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports . . . Some survey-based measures of longer-term inflation expectations have edged down . . . [the Committee] ***is reasonably confident that inflation will rise, over the medium term, to its 2% objective.***
- Given the economic outlook, and recognizing the time it takes for policy actions to affect future economic outcomes, ***the Committee decided to raise the target range for the federal funds rate to 0.25 – 0.50% . . . the stance of monetary policy remains accommodative.***
- In light of the current shortfall of inflation from 2%, the Committee will carefully monitor actual and expected progress toward its inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant ***only gradual increases in the federal funds rate.***

Economic Summary

FOMC “Dot Plot” from December Meeting

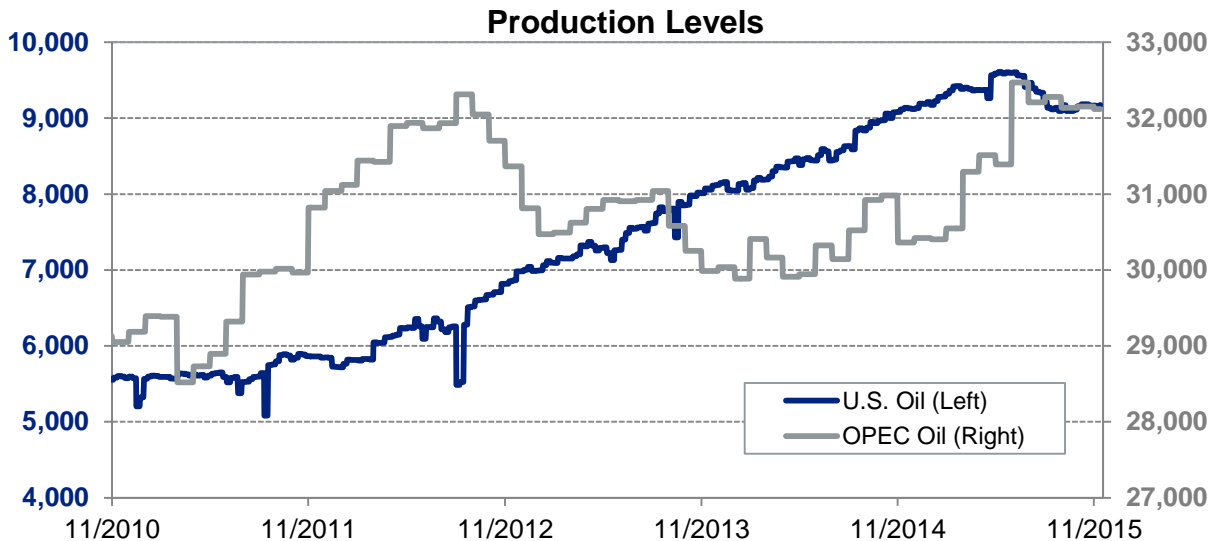
- The dot plot shows expectation for four ¼-percent hikes in 2016, although the dots have consistently overstated actual movements.
- The continued increases in short-term interest rates should translate into a higher yield to maturity on the County’s portfolio over time.



Economic Summary

Energy Production Levels Continue to Suppress Prices

- OPEC has maintained their production levels amid anticipated competition from North America and Iran.
- U.S. oil production fell in 2015, in response to falling prices, after rising steadily since 2010.



- The World Oil Outlook report recently projected the price of crude oil will rise to \$70 in 2020 as falling prices drive up demand.
- The U.S. Energy Information Administration (EIA) reported U.S. stockpiles fell 5.9 million barrels for the week ending December 18, prompting a minor rally, but prices remain low.

