RANCHO MURIETA COMMUNITY SERVICES DISTRICT

15160 Jackson Road, Rancho Murieta, CA 95683
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FINANCE COMMITTEE

(Directors John Merchant and Tim Maybee)

Regular Meeting
March 12, 2019 at 8:30 a.m.

All persons present at District meetings will place their cellular devices in silent and/or vibrate mode (no ringing of any kind). During meetings, these devices will be used only for emergency purposes and, if used, the party called/calling will exit the meeting room for conversation. Other electronic and internet enabled devices are to be used in the "silent" mode. Under no circumstances will recording devices or problems associated with them be permitted to interrupt or delay District meetings.

AGENDA

1. **Call to Order**
2. **Comments from the Public**
3. **Annual Investment Policy Review – No Update**
4. **Budget Update**
5. **Discuss Reserves**
6. **Directors and Staff Comments/Suggestions** [no action]
7. **Adjournment**

In accordance with California Government Code Section 54957.5, any writing or document that is a public record, relates to an open session agenda item and is distributed less than 72 hours prior to a regular meeting will be made available for public inspection in the District offices during normal business hours. If, however, the document is not distributed until the regular meeting to which it relates, then the document or writing will be made available to the public at the location of the meeting.

Note: This agenda is posted pursuant to the provisions of the Government Code commencing at Section 54950. The date of this posting is March 8, 2019. Posting locations are: 1) District Office; 2) Post Office; 3) Rancho Murieta Association; 4) Murieta Village Association.

pfm

February 11, 2019

Memorandum

To: Finance Committee
Rancho Murieta Community Services District ("District")

From: Lauren Brant, Managing Director
Allison Kaune, Senior Managing Consultant
PFM Asset Management LLC

Re: Investment Policy Review and Market Update

2019 Investment Policy Review

We have reviewed the District's Investment Policy ("Policy") dated April 20, 2016, and are recommending no changes at this time. While there was one change to California Government Code in 2018 that went into effect on January 1, 2019, it impacts language on asset-backed securities, an investment type not permitted by the District's Policy.

Summary of Market Events – 2018

The domestic economy remained generally on solid footing during 2018, bolstered by a robust labor market and slow, steady economic expansion. Real gross domestic product (GDP) in the U.S. grew at an annualized rate of 3.0% for the year ended September 30, 2018 (latest available data). The American consumer continued to drive growth, offsetting some moderation in business investment and a contraction in trade. The U.S. labor market continued to be a shining star of the U.S. economy, as unemployment rate ended the year at 3.9% and the labor force participation rate edged upward, suggesting that potential job-seekers are feeling more optimistic about job prospects and are coming off of the sidelines.

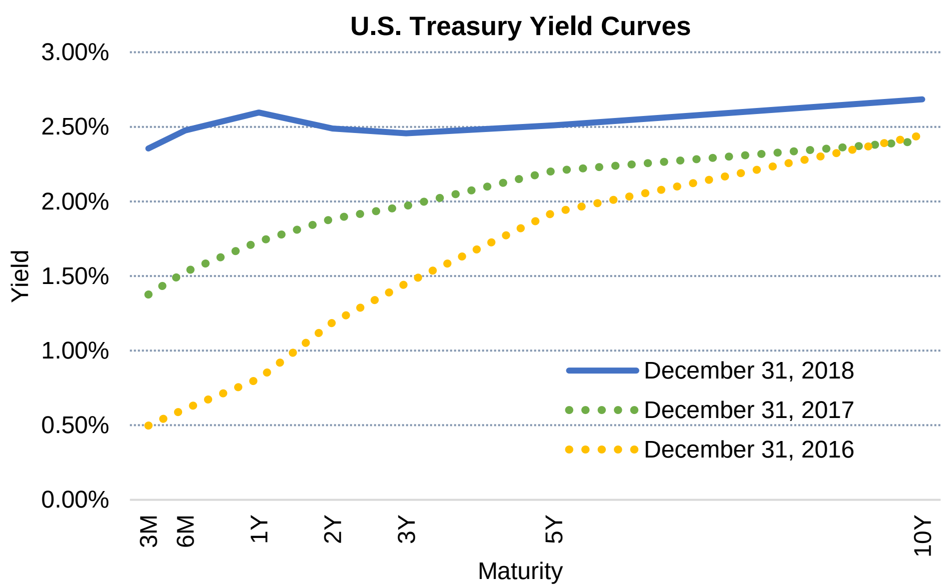
Domestic inflation is now in the Fed's comfort range as the most recent reading of core personal consumption expenditures, the Fed's preferred gauge of inflation, registered at 1.9% year-over-year through November. While wage growth has risen to match the expansion high, it has yet to translate into higher inflation. Moreover, weakening investor sentiment led to a drop in future inflation expectations. As of year-end, investor expectations of average inflation over the next 5 years fell to just 1.5%.

Over the past year, the Federal Reserve continued tightening monetary policy, raising the short-term interest rate four times in 2018, by ¼ percent each time. At year end, the federal funds rate stood at a target range of 2.25% to 2.50%. However, unlike the well-choreographed rate hikes of 2017 and 2018, the future pace of overnight monetary policy is unclear. The Fed's most recent estimates called for two rate hikes in 2019, while the market's expectation (as measured by fed funds futures) calls for zero hikes in 2019. Moreover, Federal Reserve Chair Jay Powell noted that the Fed is "prepared to adjust policy quickly and flexibly" if necessary, adding greater uncertainty to the path of future rate hikes.

Interest rates increased sharply for most of 2018, driven by the Fed rate hikes and positive economic growth. However, in contrast to the relative calm that defined the financial markets throughout most of 2018, the fourth calendar quarter was dominated by trade war worries, fears of a slowdown in global growth, and political uncertainties, all of which led to increased market volatility and a sharp sell-off in the stock market. Equity market volatility during the fourth calendar quarter of 2018 sparked a flight to quality, as investors sought the safety of U.S. Treasury obligations, resulting in a quarter-over-quarter decline in intermediate-and longer-term U.S. Treasury yields for the first time in several years.

Source: Bloomberg

Interest rate movement during the final quarter of the year resulted in a U.S. Treasury yield curve that inverted between 1- and 5-year maturities for the first time since 2007, as short-term yields, bolstered by increases to the federal funds target rate, continued their upward ascent, while intermediate- and longer-term yields fell in response to souring investor sentiment on future growth prospects. This continues the trend of flatting of the yield curve that has remained in play for the better part of the last two years. While this modest inversion in the belly of the yield curve may be explained away due to market anomalies (Central Bank intervention and increased foreign demand for intermediate- and longer-term U.S. Treasuries), investors will be closely watching for any inversion in the 10-year maturity – historically a more meaningful and market-adopted warning signal.



Source: Bloomberg

Please contact us if you have any questions.