RANCHO MURIETA COMMUNITY SERVICES DISTRICT

15160 Jackson Road, Rancho Murieta, CA 95683
Office - 916-354-3700 * Fax - 916-354-2082

FINANCE COMMITTEE

(Directors Gerald Pasek and John Merchant)

Regular Meeting
March 6, 2018 at 9:30 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**
4. **Budget Update**
5. **Discuss Reserve Tracking Report**
6. **Discuss Monthly Finance Report and Bills Paid Listing Details**
7. **Directors & Staff Comments/Suggestions** [no action]
8. **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 1, 2018. Posting locations are: 1) District Office; 2) Rancho Murieta Post Office; 3) Rancho Murieta Association; 4) Murieta Village Association.

pfm

February 20, 2018

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

2018 Investment Policy Review

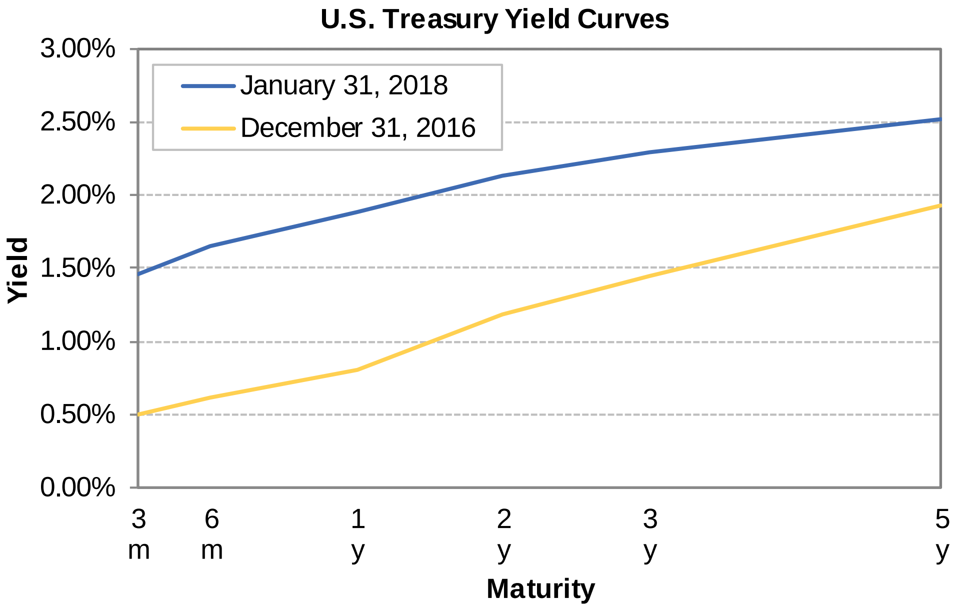
We have reviewed the District's Investment Policy ("Policy") dated April 20, 2016, and are recommending no changes at this time.

Summary of Market Events – 2017

The U.S. economy in the 2nd and 3rd quarters of 2017 recorded its strongest back-to-back quarters of growth since 2014, as positive contributions came from consumer spending, private investment including inventories, and net exports. With the economy expected to continue on its path of moderate growth, the American consumer will continue to be the main economic driver as the labor market remains strong and confidence runs high. Business investment is also expected to be a positive contributor as business confidence remains high and corporate earnings are strong. The labor market remained strong as employers added over 2 million jobs in 2017, pushing the unemployment rate down to 4.1%, a 15-year low. Inflation remained subdued as it continued to run well below the Federal Reserve's 2% target.

Over the past year, the Federal Reserve continued tightening monetary policy, raising the short-term interest rate three times in 2017, by ¼ percent each time, citing continued economic strength and growth in the U.S. labor market. At year end, the federal funds rate stood at a target range of 1.25% to 1.50%, up from 0.50% to 0.75% at the beginning of the year. Additionally, the Federal Reserve announced plans to reduce the size of its very large balance sheet holdings of U.S. Treasuries and Agency mortgage-backed securities, beginning in October 2017.

As a result of the Federal Reserve rate increases, interest rates on U.S. Treasuries with maturities of 5 years or less rose, with the yield on the 2-year Treasury note rising from 1.19% to 1.89% over the year. Longer-term rates declined over the year due to low inflation expectations, with the yield on the 10-year Treasury note falling from 2.44% to 2.41% over the same period. Stock markets in the U.S. and around the globe had a strong year amid synchronized global economic growth and strong corporate profits. The S&P 500 rose over 19% for the year.



Source: Bloomberg

Summary of Recent Market Events

Building on the themes of 2017, the global economy began 2018 with positive momentum marked by strong consumer spending and improving business investment. Yields rose and equity prices surged before an early February jolt.

The initial reading of fourth quarter GDP indicated that the U.S. economy grew at an annual pace of 2.6% and 2.3% for the year. The U.S. economy added 200,000 jobs in January, outpacing both expectations (180,000) and the December reading (revised up to 160,000). The headline unemployment rate remained unchanged at 4.1%, matching a 17-year low. The surprise of the Labor Department's jobs report was a surge in wages, as average hourly earnings rose 2.9% over the past 12 months, the highest level since 2009.

The stronger than expected wage growth number resulted in concerns that rising inflation and higher interest rates could come sooner than expected and might derail the current global economic expansion. This resulted in a large sell off in the equity markets during the first few days of February. While equities may remain lower for some time, fundamentals are strong and the U.S. economy remains on track for continued expansion.

Yields on Treasuries and other fixed income sectors have continued to move higher in 2018 to date. As of February 8th, the 2-year treasury had moved up 0.22% to a yield of 2.10% and the 10-year Treasury was up 0.41% to 2.82%. The Federal Reserve is currently expected to raise rates another three times in 2018 and so we will likely see yields continue to move higher throughout the year, but the number and amount of rate hikes will depend on emerging market conditions and may be effected by a change in leadership at the Fed, as Janet Yellen's term as Chair expired in early 2018.

Please contact us if you have any questions.