



Rancho Murieta Community Services District Investment Update

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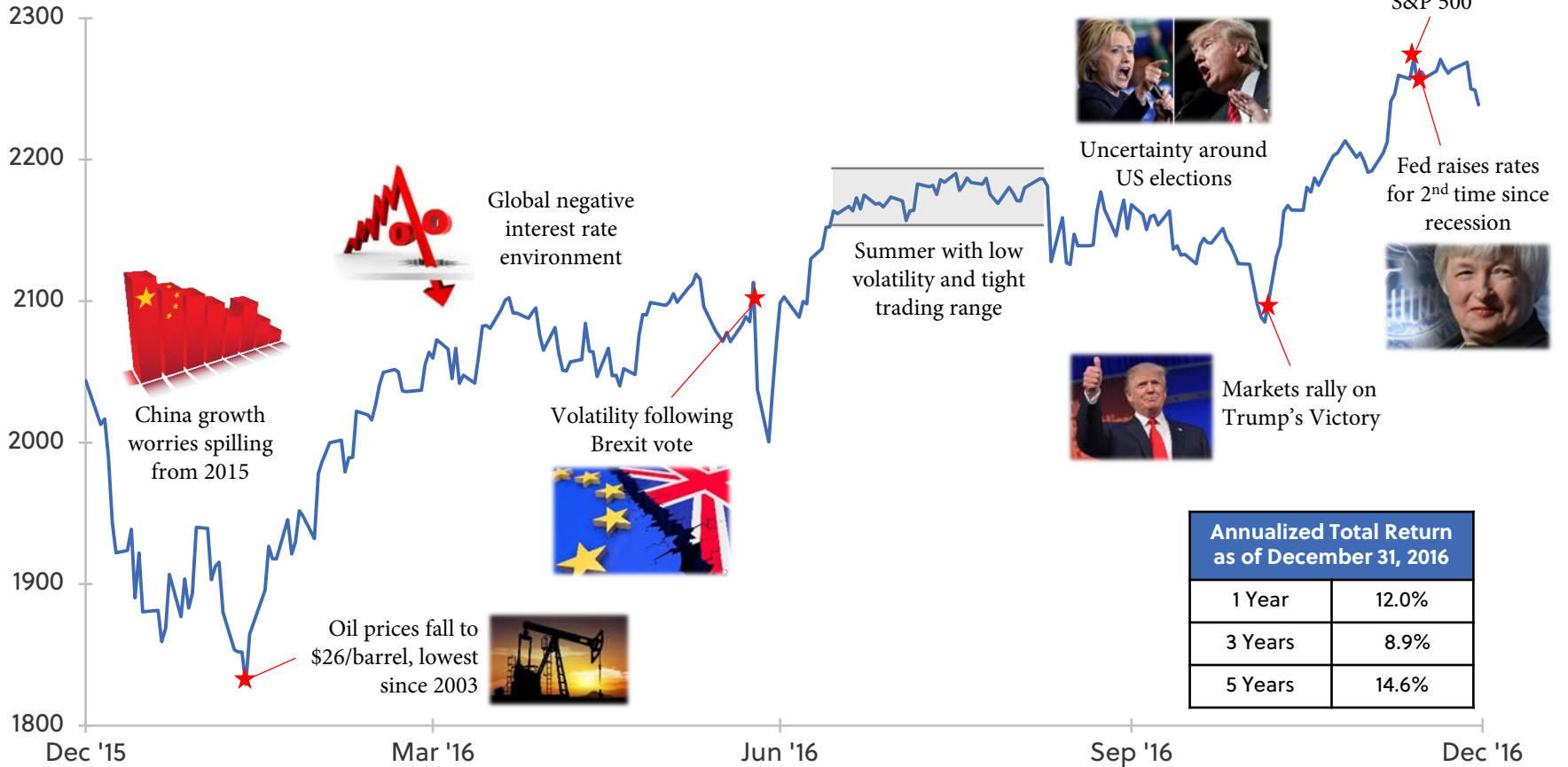


Market Update



Looking Back: 2016 in Review

S&P 500 closes 2016 on a strong note



Annualized Total Return as of December 31, 2016	
1 Year	12.0%
3 Years	8.9%
5 Years	14.6%

Source: Bloomberg, as of 12/31/16.



Looking Back: 2016 U.S. Economic & Market Highlights

In 2016



Economy Grew
\$534 billion



Jobs Created
2.2 million



New Vehicles Sold
17.5 million



New Homes Sold
561 thousand

Economic Highlights



Consumer Confidence
Highest since 2001



Jobless Claims
Lowest since 1974



Consumer Prices
Highest since 2014



Housing Prices
Record high

Market Highlights



Equities
Record high



2-Yr Treasury Yield
Highest since 2011



US Dollar
Highest since 2003



Oil
Highest since 2015

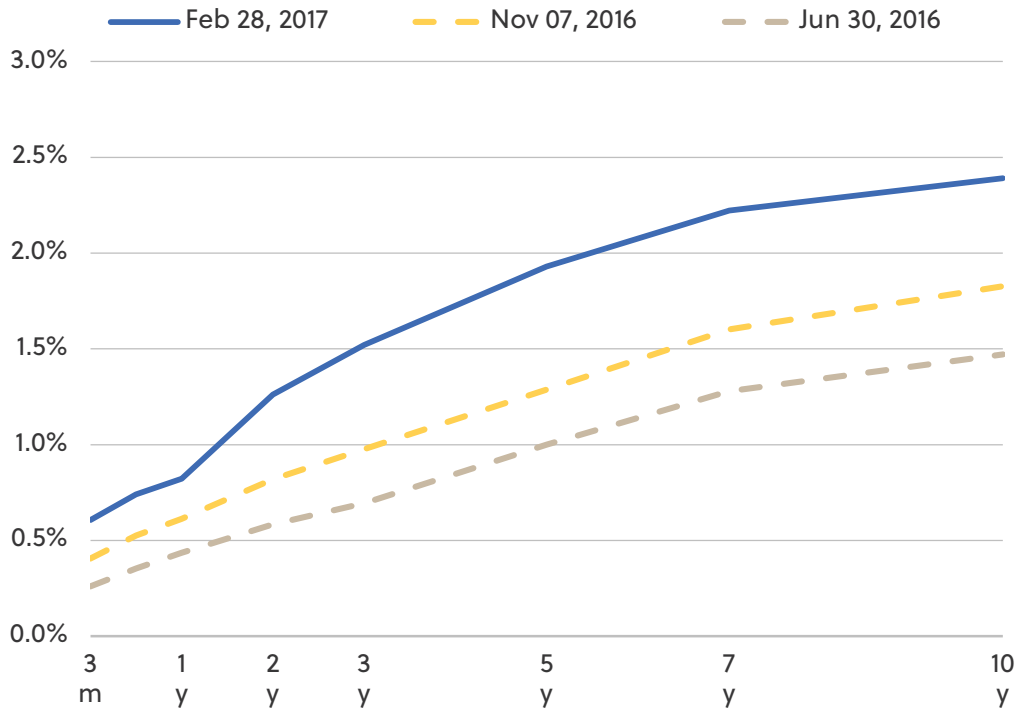
Source: Bloomberg, as of 12/31/16.



Higher Treasury Rates, Yield Curve Steeper

- ◆ Treasury rates have risen significantly following the U.S. elections, resulting in a steeper yield curve.

U.S. Treasury Yield Curve



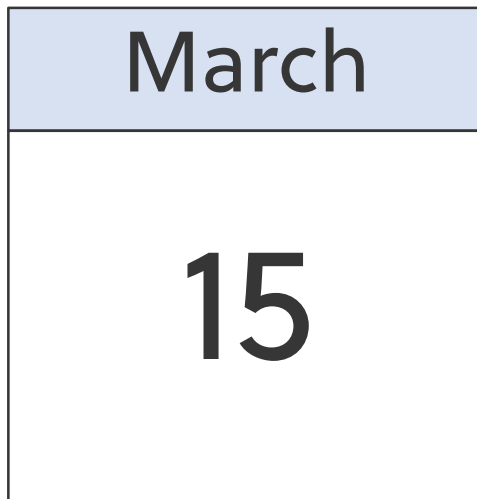
Yield Curve History

Maturity	02/28/17	11/07/16	06/30/16
1-Mo.	0.43	0.26	0.17
3-Mo.	0.61	0.41	0.26
6-Mo.	0.74	0.53	0.35
1-Yr.	0.82	0.61	0.44
2-Yr.	1.26	0.82	0.58
3-Yr.	1.52	0.98	0.69
5-Yr.	1.93	1.29	1.00
7-Yr.	2.22	1.60	1.28
10-Yr.	2.39	1.83	1.47
30-Yr.	3.00	2.60	2.29

Source: Bloomberg, as of 02/28/17.



FOMC Statement Highlights



- Information received since the FOMC met in February indicates that the **labor market has continued to strengthen** and that **economic activity has continued to expand at a moderate pace.**
 - **Job gains remained solid** and the **unemployment rate was little changed in recent months.**
 - **Inflation has increased in recent quarters**, moving close to the Committee's 2 percent longer-run objective; **excluding energy and food prices, inflation was little changed and continued to run somewhat below 2%.**
-
- In view of realized and expected labor market conditions and inflation, the Committee decided to **raise the target range for the federal funds rate to 0.75% – 1.00%.**
 - The committee expects that economic conditions will evolve in a manner that will warrant **gradual increases in the federal funds rate.**
 - Minneapolis Fed President Neel Kashkari was the only dissenter, who preferred at this meeting to maintain the existing target range for the federal funds rate.



District Investment Program



District's Investment Objectives

Objective

Safety

Investments shall be undertaken in a manner which first seeks to preserve portfolio principal.

Liquidity

Investments shall be made with maturity dates that are compatible with cash flow requirements and which will permit easy and rapid conversion into cash, at all times, without a substantial loss of value.

Return on Investment

Investments shall be undertaken to produce an acceptable rate of return after first consideration for principal and liquidity.

Source: Rancho Murieta CSD's Investment Policy Statement



Rancho Murieta CSD - Aggregate Investments

CSD Funds	Balance	Yield
El Dorado Savings Bank		
Savings	\$ 741,380.42	0.03%
Checking	\$ 76,484.68	0.02%
Payroll	\$ 9,349.79	0.02%
Banner Bank		
EFT	\$ 119,018.97	0.00%
LAIF		
Restricted Funds	\$ 1,486,212.34	0.75%
Unrestricted Funds	\$ 3,962,521.78	0.75%
CAMP	\$ 603,112.67	0.95%
Union Bank - PARS GASB45 Trust	\$ 1,237,544.06	-
Bond Funds		
Bank of America	\$ 516,994.31	0.00%
Wilmington Trust	\$ 617,880.31	0.02%
Total	\$ 9,370,499.33	

Source: District, as of 02/28/17. PARS GASB45 Trust balance is as of 1/31/17. Wilmington Trust balance is as of 11/30/16. CAMP current annualized yield as of 03/29/17 from www.camponline.com.



Investment Policy Update

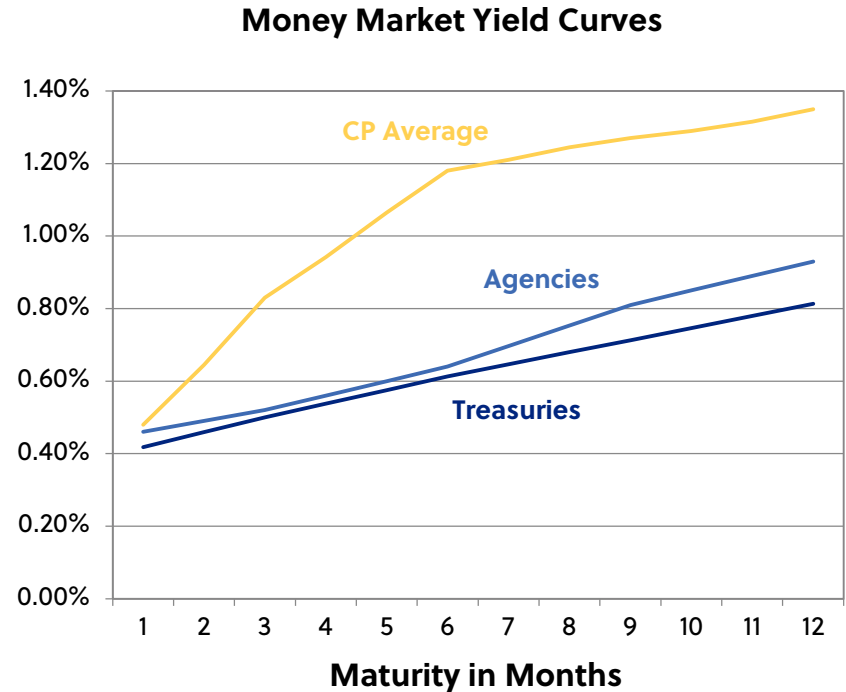
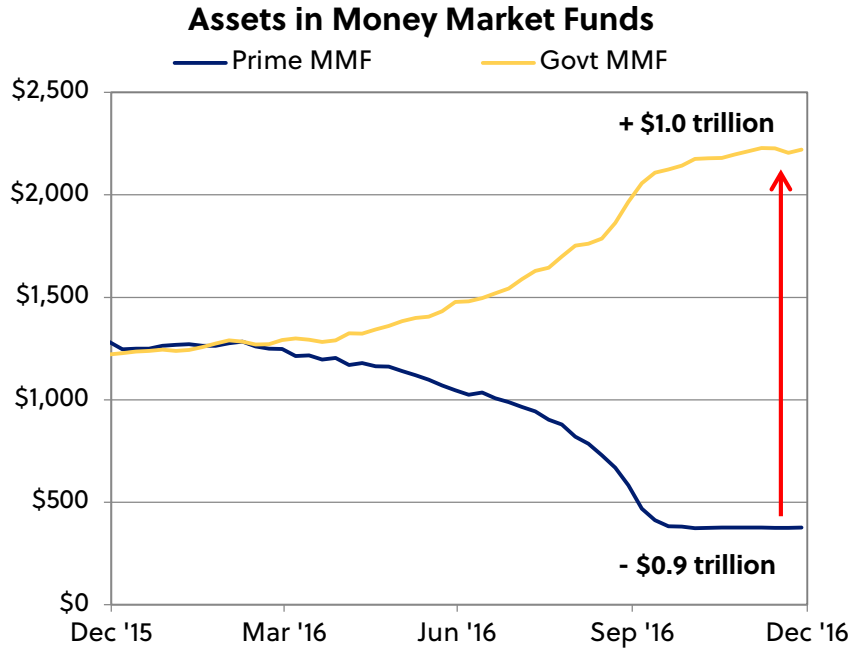
- PFMAM is not recommending any changes to the District's Investment Policy
- Several statewide and national changes impacting the investment of public funds:
 - Deposit limit for LAIF increased from \$50 million to \$65 million (effective January 1, 2016)
 - SB 974: clarifies the Code's requirement for specifying the minimum credit rating required at purchase (effective January 1, 2017)
 - SEC money market reform (October 2016):
 - Prime money market funds are required to use floating net-asset-value
 - Government money market funds are not required to use floating net-asset-value
 - Prime & government MMF may institute liquidity fees and/or redemption gates

Note: These statements are thoroughly outlined in an Investment Policy Memorandum sent to the District dated 3/29/17.



Impact of Money Market Reform

- SEC-imposed reforms to the money market fund industry caused a significant shift in assets from prime funds to government-only funds.



Source: Bloomberg and PFMAM Trading Desk. As of 12/31/16.

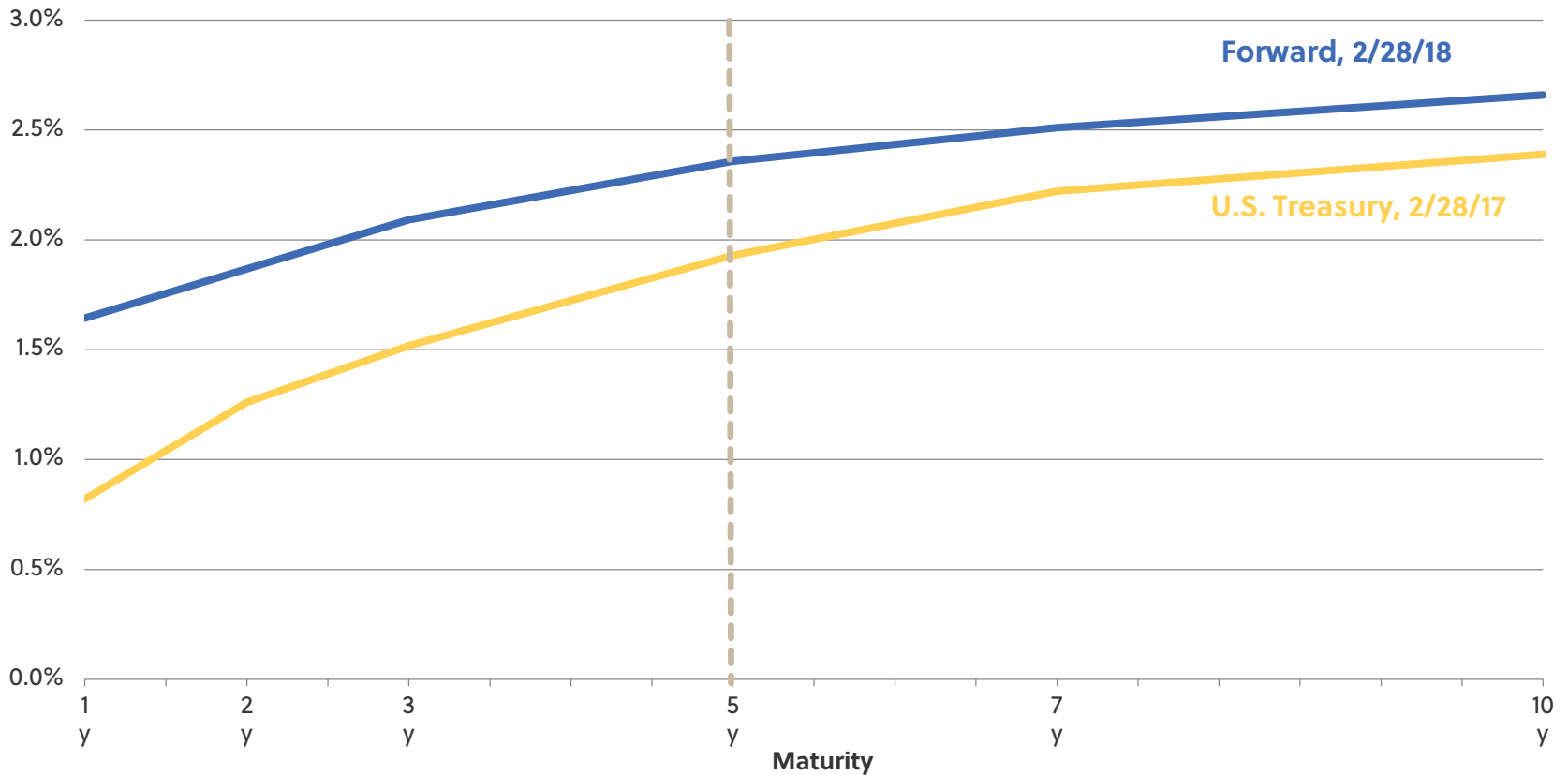


Current Outlook



On the Horizon: Higher Interest Rates

U.S. Treasury Yields vs. 1-year Forward Yields

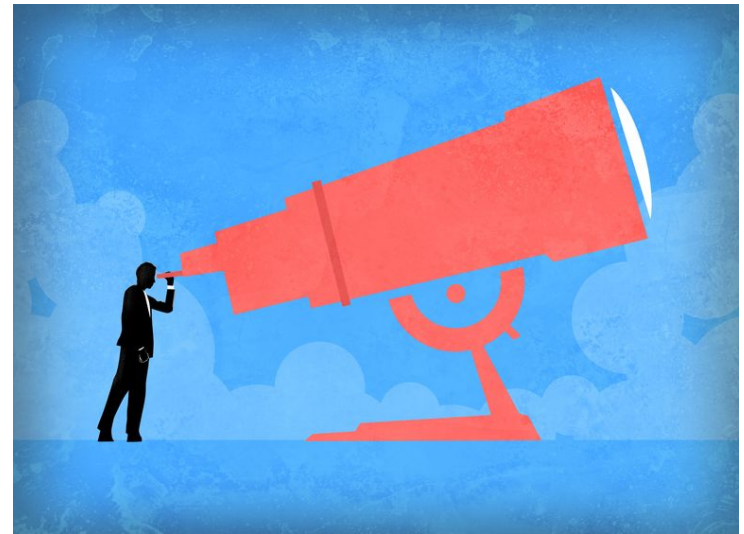


Source: Bloomberg



Current Market Themes

- ◆ U.S. Treasury yields remained at higher levels in February, awaiting clarity from the new Administration, Congress and the Federal Reserve
- ◆ U.S. Economic conditions were characterized by:
 - Moderate GDP growth in 2016 and early 2017
 - Labor market continuing to strengthen
 - Inflation picking up slowly
- ◆ Fed officials forecast 3 rate hikes in 2017, according to the December “dot plot”
- ◆ President Trump’s economic policies are considered as pro-business and inflationary, but their rollouts have created significant controversy
- ◆ Upcoming 2017 elections in Europe could create additional political uncertainty





Disclosures

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