



QUARTERLY INVESTMENT REPORT

March 31, 2016

**City of Houston, Texas
Office of the City Controller**

**Chris Brown
City Controller**

**Charisse Mosely
Deputy City Controller**

**Han Au
Investment Manager**



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

April 19, 2016

To Mayor Turner, City Council Members and
The Citizens of Houston:

I am pleased to submit to you the City of Houston's Quarterly Investment Report for the quarter ended March 31, 2016. This report presents the composition of investment pools the City Controller's Office manages.

The Report is organized as follows: Investment Portfolio Summary and Composition of all pools; an analysis of the General and Tax Exempt pools; security listings by maturity for the quarters ended March 31, 2016 and December 31, 2015.

I hope you find this data useful and informative.

Respectfully submitted,

Chris Brown
City Controller



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

Quarterly Investment Report

We believe the data presented for the quarter ended March 31, 2016 is accurate in all material respects and presented in a manner that fairly sets forth the investment standing of the City of Houston.

This report was prepared in compliance with the City's Investment Policy and the Public Funds Investment Act of the State of Texas.

Chris Brown
City Controller

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Deputy City Controller
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CITY OF HOUSTON
QUARTERLY INVESTMENT REPORT
Executive Summary
For the Quarter Ended March 31, 2016

The accompanying Quarterly Investment Report lists in summary form and in detail the investment positions of the City of Houston investment pools as of March 31, 2016. As of that date, the City held total investments with a market value of \$4.0 billion. The majority of these funds, with the exception of about \$16 million that must be segregated per federal mandates, are held in the City's General Investment Pool. The General Investment Pool consists of working capital, construction funds, and debt service funds not subject to yield restriction under IRS arbitrage regulations. All investments are governed by state law and the City's Investment Policy, which dictates the following investment objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investments
4. Other Legal Requirements

Approximately 33.3% of the City's holdings are currently invested in securities issued by US government-sponsored enterprises such as the Federal Home Loan Bank, Fannie Mae, and Freddie Mac. Other investment sectors include 48.5% allocation to United States Treasuries, 7.3% to municipal notes and bonds, 4.7% to commercial paper, and 6.2% to high grade money market funds.

The weighted average maturity of the City's investments has historically ranged from about one year up to two years. The weighted average maturity is currently 1.10 years. From an operating standpoint, 23% of the funds invested are designated to be spent on capital projects such as roads and bridges, the water and sewer system and the airport system. Investment maturities are targeted to coincide with planned expenditures. Other investment maturities are targeted to meet short-term obligations such as payroll and debt service payments.

Fitch Ratings has assigned its AAA credit rating and V1 volatility rating to the General Pool. The AAA credit quality rating is the highest rating available from Fitch Ratings and reflects the extremely strong protection that the Pool's portfolio investments provide against losses from credit defaults or credit deteriorations. The V1 volatility rating recognizes the Pool's sensitivity to changing market conditions as a result of its low market risk profile and conservative investment policies.

At March 31, 2016, the general pool was yielding 0.952% based on the amortized cost of the portfolio.

**Investment Portfolio Summary
Activity For Quarter Ended
March 31, 2016**

General Pool 9900

	<u>3/31/2016</u>	<u>12/31/2015</u>	<u>Last Quarter Net Change</u>	<u>3/31/2015</u>	<u>Last Year Net Change</u>
Book Value	\$4,005,534,001	\$3,215,052,908	790,481,093	\$3,865,453,895	140,080,105
Market Value	\$4,016,467,326	\$3,212,356,471	804,110,856	\$3,875,319,667	141,147,660
Market/Book Ratio	1.0027	0.9992	0.0036	1.0026	0.0002
Accrued Interest	\$16,826,279	\$7,492,565	9,333,714	\$13,376,570	3,449,709

The General Pool consists of all working capital, construction, and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. Combining the net cash-flows of all funds allows the City to invest in longer-term, higher-yielding securities without sacrificing the ability to meet short-term cash needs. The General Pool strategy, as outlined in the City's Investment Policy, combines a variation on the traditional laddered maturity strategy which matches assets and liabilities, with more active management strategies, such as yield curve analysis and bond swaps.

For the quarter ending March 31, 2016, the 3-month average yield was 0.921%. The weighted average maturity (WAM) as of March 31 was 402 days.



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Tax Exempt Pool 9901

	<u>3/31/2016</u>	<u>12/31/2015</u>	<u>Last Quarter Net Change</u>	<u>3/31/2015</u>	<u>Last Year Net Change</u>
Book Value	\$7,786,512	\$7,775,533	10,979	\$7,841,335	-54,823
Market Value	\$7,782,926	\$7,768,656	14,270	\$7,841,441	-58,515
Market/Book Ratio	0.9995	0.9991	0.0004	1.0000	-0.0005
Accrued Interest	\$101,178	\$102,778	-1,600	\$11,692	89,486

The Tax Exempt Pool consists of those funds which are subject to yield restriction and arbitrage regulation under the 1986 Tax Reform Act. This pool was created to do the following: demonstrate compliance with Internal Revenue Code regarding arbitrage, maximize the amount of interest earned and retained by the City from the investment of funds subject to the regulations, minimize the amount of rebate liability, and minimize the cost of administering the arbitrage tracking program. The Tax Exempt Pool strategy, as outlined in the City's Investment Policy, is to invest in high quality, short-term municipal bonds and one or more tax-exempt money market mutual funds in order to meet the liquidity demands of the City.

For the quarter ending March 31, 2016, the 3-month average yield was 0.444%. The WAM was 179 days at March 31, 2016.

**Investment Portfolio Summary
Activity For Quarter Ended
March 31, 2016**

Housing Department Section 108 Pool 9902

	<u>3/31/2016</u>	<u>12/31/2015</u>	<u>Last Quarter Net Change</u>	<u>3/31/2015</u>	<u>Last Year Net Change</u>
Book Value	\$8,489,691	\$8,496,496	-6,805	\$14,995,263	-6,505,571
Market Value	\$8,492,638	\$8,498,495	-5,858	\$14,996,490	-6,503,853
Market/Book Ratio	1.0003	1.0002	0.0001	1.0001	0.0003
Accrued Interest	\$0	\$0	0	\$0	0

The Housing Department Fund was created to comply with the U.S. Department of Housing and Urban Development (HUD), which requires a separate custodial account for HUD's benefit.

For the quarter ending March 31, 2016, the 3-month average yield was 0.298%. The WAM was 119 days at March 31, 2016.

**Investment Portfolio Summary
Activity For Quarter Ended
March 31, 2016**

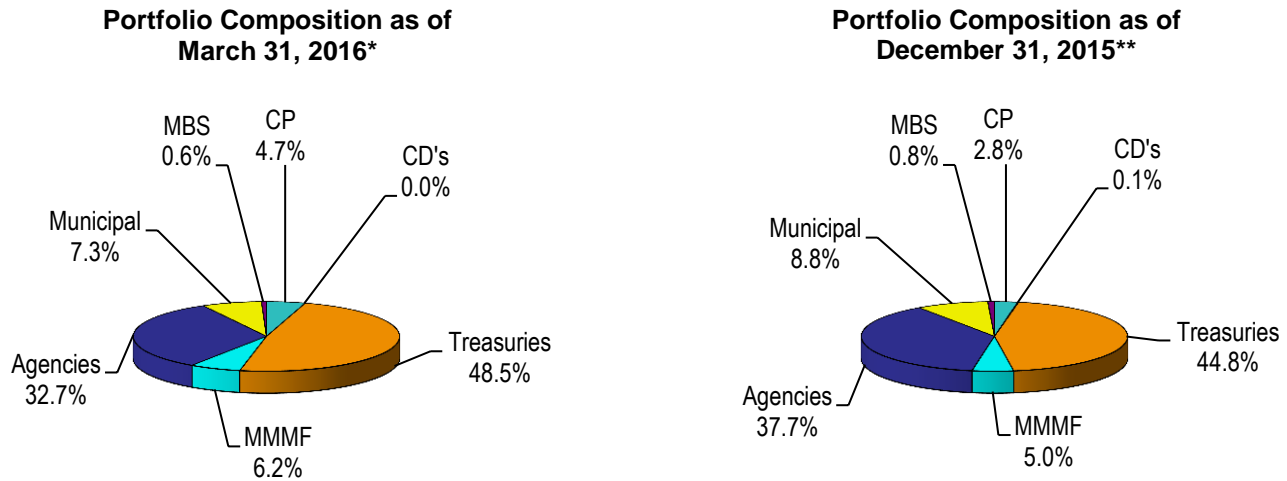
Housing Department Section 108 Pool 9902

	<u>3/31/2016</u>	<u>12/31/2015</u>	<u>Last Quarter Net Change</u>	<u>3/31/2015</u>	<u>Last Year Net Change</u>
Book Value	\$8,489,691	\$8,496,496	-6,805	\$14,995,263	-6,505,571
Market Value	\$8,492,638	\$8,498,495	-5,858	\$14,996,490	-6,503,853
Market/Book Ratio	1.0003	1.0002	0.0001	1.0001	0.0003
Accrued Interest	\$0	\$0	0	\$0	0

The Housing Department Fund was created to comply with the U.S. Department of Housing and Urban Development (HUD), which requires a separate custodial account for HUD's benefit.

For the quarter ending March 31, 2016, the 3-month average yield was 0.298%. The WAM was 119 days at March 31, 2016.

Investment Portfolio Composition General Pool 9900 Percentages by Market Sector



*0.0% Reverse Repo (liabilities)

** 0.0% Reverse Repo (liabilities)

Note: Adjustments were made to include the Reverse Repo.

FIGURE 2
Source: City of Houston Controller's Office

Investment Policy Limitations

Money Market Mutual Funds (MMMF)	≤25%
Repurchase Agreements (Repo)	≤15%
Commercial Paper/Banker Acceptances (CP/BA)	≤15%
US Treasury Bills/Notes/Bonds	≥15%
US Agencies	≤85%
Municipal Bonds	≤20%
Mortgage-Backed Securities (MBS) & Collateralized Mortgage Obligations (CMO)	≤20%

The portfolio composition graph for the General Pool (Figure 2) shows the percentage of the pool held in U.S. Treasuries, U.S. Agencies, Mortgage-Backed Securities, Municipal Bonds and liquidity investments (MMMF, Repo and CP) positions. All investments are in compliance with the objectives and restrictions set forth in the City's Investment Policy and the Public Funds Investment Act of the State of Texas.

**Annual Portfolio Composition
General Pool 9900
April 2015 through March 2016**

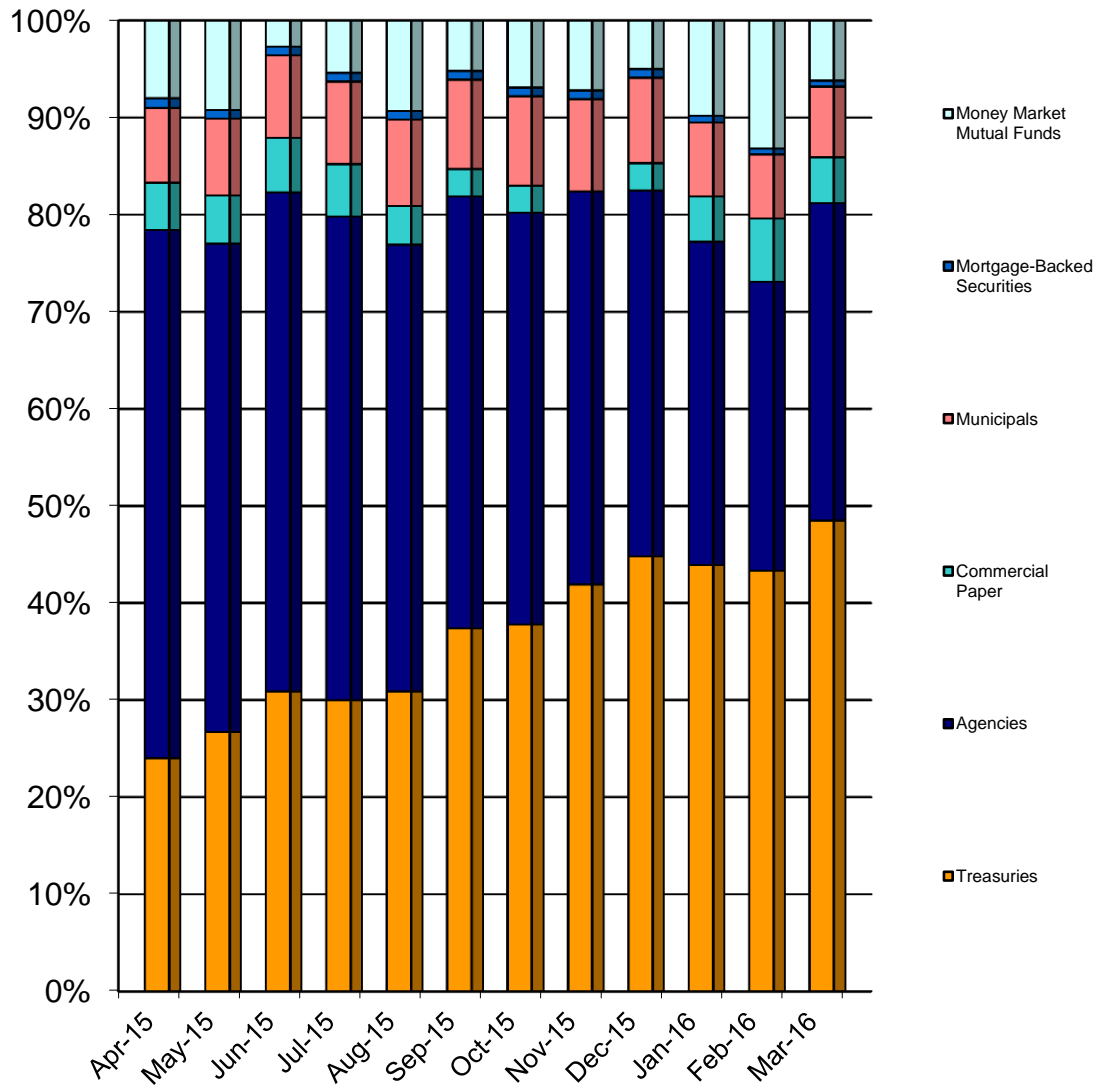
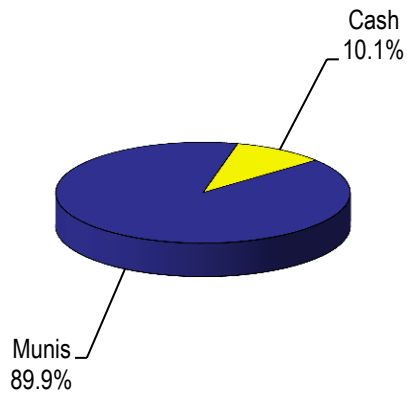


FIGURE 3
Source: City of Houston Controller's Office

**Investment Portfolio Composition
Tax Exempt Pool
Percentages by Market Sector**

**Portfolio Composition as of
March 31, 2016**



**Portfolio Composition as of
December 31, 2015**

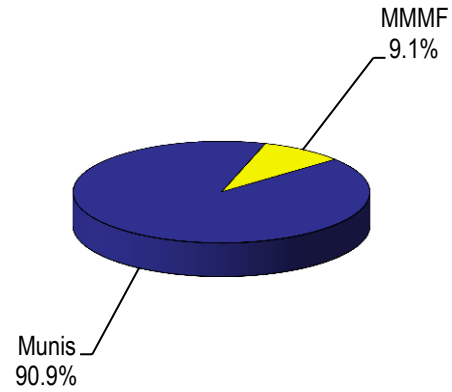


FIGURE 5
Source: City of Houston Controller's Office

Investment Policy Limitations

	<u>Maximum Level</u>
Money Market Mutual Funds (MMMF)	100%
Municipal Notes and Bonds (Including VRDSs)	100%

The portfolio composition graph for the Tax Exempt Pool (Figure 5) shows the percentage of the pool held in Municipal Notes/Bonds/VRDS's and Money Market Mutual Funds. All investments are in compliance with the objectives and restrictions set forth in the City's Investment Policy and the Public Funds Investment Act of the State of Texas.

Appendix I

Investments by Sector and Maturity as of March 31, 2016

Description	CUSIP	Coupon	Par Value	Maturity Date	Call Date Avg Life	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value
TexStar960 Cash Rese		0.344%	247,642,099.13	4/1/2016		0.003	7/1/2011	5.09	247,642,099.13	0	0.344	247,642,099.13
Subtotal Money Market Mutual Funds		0.344%	247,642,099.13	4/1/2016		0.003		5.04	247,642,099.13		0.344	247,642,099.13
TOTAL FUND 9900		1.558%	3,984,507,564.98	8/16/2017		1.330		16,826,279.43	4,005,534,000.75		0.952	4,016,467,326.41

**INVESTMENT BY SECTOR AND MATURITY - TAX EXEMPT FUND 9901
AS OF March 31, 2016**

Description	CUSIP	Coupon	Par Value	Maturity Date	Call Date	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value
Municipal Bonds												
MON 4.5 4-1-24 Pre-r	613664X63	4.500%	2,330,000.00	4/1/2016		0.003	4/17/2015	52,425.00	2,330,547.47	0	0.300	2,330,000.00
MON 4.5 4-1-25 Pre-r	613664X71	4.500%	1,170,000.00	4/1/2016		0.003	4/17/2015	26,325.00	1,170,274.91	0	0.300	1,170,000.00
OHS 4.0 9-15-16	677521RW8	4.000%	1,000,000.00	9/15/2016		0.460	10/22/2014	1,777.78	1,016,543.00	0	0.400	1,015,610.00
MAS 5.25 8-1-25 Pre-	57582PFQ8	5.250%	2,360,000.00	8/1/2017		1.297	4/2/2015	20,650.00	2,502,556.78	0	0.700	2,500,726.80
Subtotal Municipal Bonds		4.685%	6,860,000.00	10/15/2016		0.530		101,177.78	7,019,922.16		0.457	7,016,336.80
TOTAL FUND 9901		4.685%	6,860,000.00	10/15/2016		0.53		101,177.78	7,019,922.16		0.46	7,016,336.80

**INVESTMENT BY SECTOR AND MATURITY - HOUSING DEPARTMENT SECTION 108 FUND 9902
AS OF March 31, 2016**

Description	CUSIP	Coupon	Par Value	Maturity Date	Call Date	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value
Treasury Bills												
B 0.3154 7-14-16	912796JB6	0.315%	5,000,000.00	7/14/2016		0.287	3/17/2016	0.00	4,995,400.42	0	0.316	4,997,170.00
B 0.42 8-18-16	912796HA0	0.420%	3,500,000.00	8/18/2016		0.383	2/18/2016	0.00	3,494,290.80	0	0.421	3,495,467.50
Subtotal Treasury Bills		0.230%	8,500,000.00	7/28/2016		0.327		0.00	8,489,691.22		0.359	8,492,637.50
TOTAL FUND 9902		0.230%	8,500,000.00	7/28/2016		0.327		0.00	8,489,691.22		0.359	8,492,637.50
GRAND TOTALS		1.561%	3,999,867,564.98	8/15/2017		1.326		16,927,457.21	4,021,043,614.13		0.950	4,031,976,300.71

Appendix II

Investments by Sector and Maturity as of December 31, 2015

