



QUARTERLY INVESTMENT REPORT

June 30, 2017

**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**

July 20, 2017

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 June 30, 2017. 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 June 30, 2017 and March 31, 2017.

I hope you find this data useful and informative.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Chris Brown", written over a horizontal line.

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 June 30, 2017 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
Treasury Division

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CITY OF HOUSTON
QUARTERLY INVESTMENT REPORT
Executive Summary
For the Quarter Ended June 30, 2017

The accompanying Quarterly Investment Report lists in summary form and in detail the investment positions of the City of Houston investment pools as of June 30, 2017. As of that date, the City held total investments with a market value of \$3.6 billion. The majority of these funds, with the exception of about \$19 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 48.2% of the City's holdings are currently invested in United States Treasuries. Other investment sectors include 29.1% allocation to US government-sponsored enterprises such as the Federal Home Loan Bank, Fannie Mae, and Freddie Mac, 8.3% to municipal notes and bonds, 8.6% to commercial paper, and 5.8% 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 1.33 years. From an operating standpoint, 27% 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 AA+ credit rating and S1 volatility rating to the General Pool. The AA+ 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 S1 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 June 30, 2017, the general pool was yielding 1.213% based on the amortized cost of the portfolio.

**Investment Portfolio Summary
Activity For Quarter Ended
June 30, 2017**

General Pool 9900

	<u>6/30/2017</u>	<u>3/31/2017</u>	<u>Last Quarter Net Change</u>	<u>6/30/2016</u>	<u>Last Year Net Change</u>
Book Value	\$3,633,884,403	\$4,067,345,388	-433,460,986	\$3,474,334,421	159,549,982
Market Value	\$3,625,454,936	\$4,059,282,714	-433,827,778	\$3,491,089,253	134,365,683
Market/Book Ratio	0.99768	0.99802	-0.0003	1.0048	-0.0071
Accrued Interest	\$7,557,729	\$15,298,982	-7,741,253	\$7,268,252	289,477

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 June 30, 2017, the 3-month average yield was 1.173%. The weighted average maturity (WAM) as of June 30 was 486 days.



Fitch Ratings has assigned its AA+ credit rating and S1 volatility rating to the General Pool. The AA+ 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 deterioration. The S1 volatility rating recognizes the Pool's sensitivity to changing market conditions as a result of its low market risk profile and conservative investment policies.

Tax Exempt Pool 9901

	<u>6/30/2017</u>	<u>3/31/2017</u>	<u>Last Quarter Net Change</u>	<u>6/30/2016</u>	<u>Last Year Net Change</u>
Book Value	\$11,321,351	\$7,865,187	3,456,165	\$7,761,980	3,559,371
Market Value	\$11,309,178	\$7,849,808	3,459,370	\$7,768,081	3,541,097
Market/Book Ratio	0.9989	0.9980	0.0009	1.0008	-0.0019
Accrued Interest	\$127,750	\$72,338	55,413	\$135,778	-8,028

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 June 30, 2017, the 3-month average yield was 0.751%. The WAM was 165 days at June 30, 2017.

**Investment Portfolio Summary
Activity For Quarter Ended
June 30, 2017**

Housing Department Section 108 Pool 9902

	<u>6/30/2017</u>	<u>3/31/2017</u>	<u>Last Quarter Net Change</u>	<u>6/30/2016</u>	<u>Last Year Net Change</u>
Book Value	\$7,896,637	\$7,884,024	12,613	\$8,497,454	-600,816
Market Value	\$7,895,768	\$7,880,800	14,968	\$8,498,704	-602,936
Market/Book Ratio	0.9999	0.9996	0.0003	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 June 30, 2017, the 3-month average yield was 0.630%. The WAM was 24 days at June 30, 2017.

Investment Portfolio Composition General Pool 9900 Percentages by Market Sector

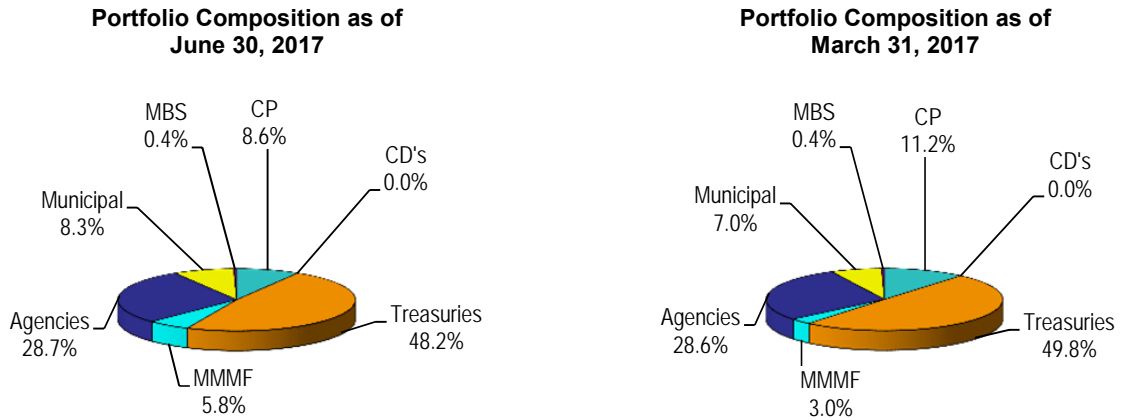


FIGURE 2
Source: City of Houston Controller's Office

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
July 2016 through June 2017**

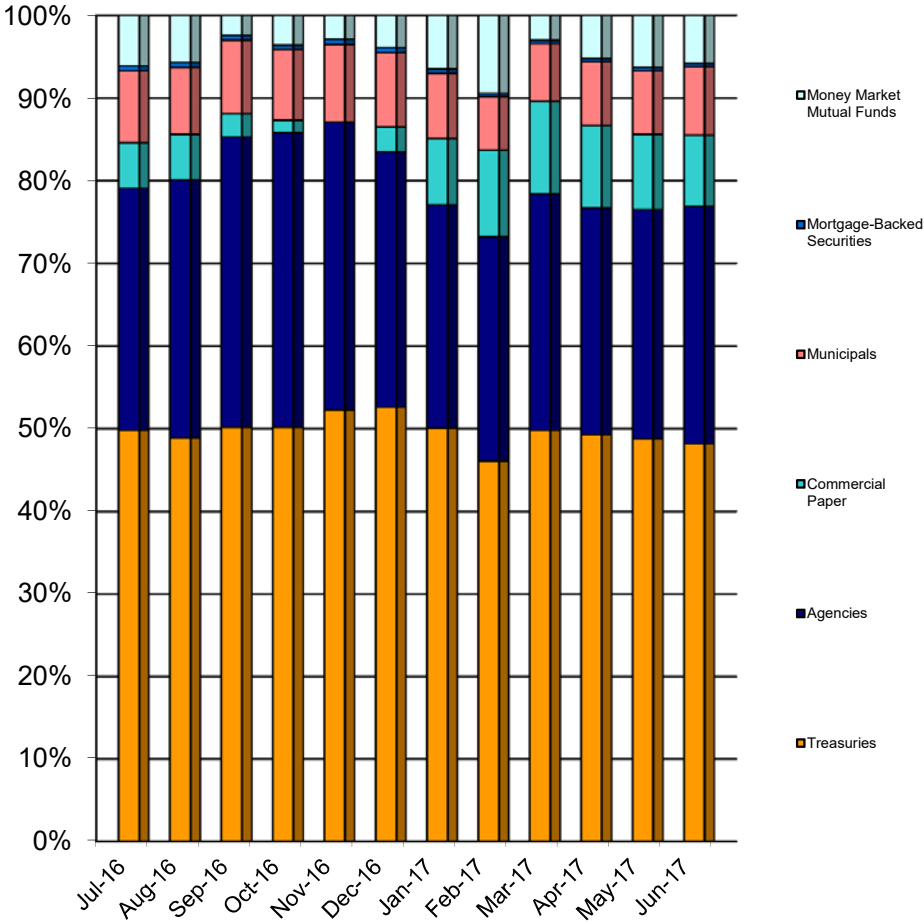
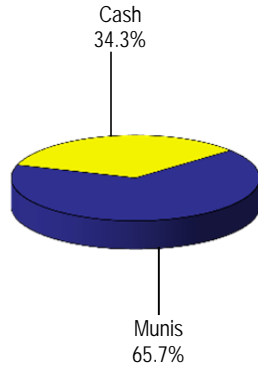


FIGURE 3
Source: City of Houston Controller's Office

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

**Portfolio Composition as of
June 30, 2017**



**Portfolio Composition as of
March 31, 2017**

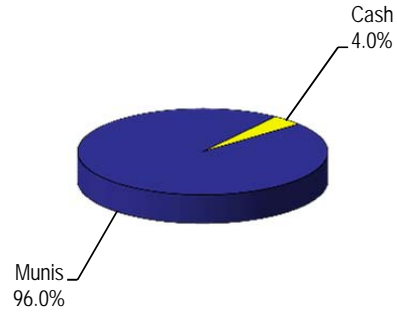


FIGURE 5
Source: City of Houston Controller's Office

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 June 30, 2017

Description	CUSIP	Coupon	Par Value	Maturity Date	Call Date Avg Life	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value
ANAHS 1.565 10-1-20	032556CA8	1.565%	2,915,000.00	10/1/2020		3.174	11/1/2016	11,404.94	2,902,663.03	0	1.700	2,853,697.55
DALUTL 2.21 10-1-20	2354167C2	2.210%	2,400,000.00	10/1/2020		3.141	2/7/2017	13,260.00	2,415,723.15	0	2.000	2,412,528.00
NYSENV 2.138 6-15-21	64986DED3	2.138%	10,000,000.00	6/15/2021		3.813	4/13/2017	9,502.22	10,000,000.00	0	2.138	10,017,000.00
PTMTRN 2.737 9-1-21	73474TAG5	2.737%	1,400,000.00	9/1/2021		3.937	11/22/2016	12,772.67	1,432,350.58	0	2.150	1,426,698.00
ORL 2.1 12-1-21	686356PN0	2.100%	6,325,000.00	12/1/2021		4.236	4/6/2017	11,068.75	6,274,775.33	0	2.290	6,274,020.50
Subtotal Municipal Bonds		2.075%	301,220,000.00	10/2/2018		1.227		1,794,482.91	303,395,147.51		1.368	302,768,417.85
Money Market Mutual Funds												
CHASE MONEY MARKET F		0.010%	0.00	7/1/2017		0.000	2/1/2008	(0.05)	0.00	0	0.010	0.00
TexStar960 Cash Rese		0.858%	210,056,447.45	7/1/2017		0.003	7/1/2011	26.44	210,056,447.45	0	0.858	210,056,447.45
Subtotal Money Market Mutual Funds		0.858%	210,056,447.45	7/1/2017		0.003		26.39	210,056,447.45		0.858	210,056,447.45
TOTAL FUND 9900		1.483%	3,619,196,938.00	12/9/2018		1.403		7,557,728.78	3,633,884,402.80		1.213	3,625,454,935.99

**INVESTMENT BY SECTOR AND MATURITY - TAX EXEMPT FUND 9901
AS OF June 30, 2017**

Description	CUSIP	Coupon	Par Value	Maturity Date	Call Date	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value
Municipal Bonds												
GAS 5.0 7-1-17	373384YG5	5.000%	1,435,000.00	7/1/2017		0.003	4/25/2016	35,875.00	1,435,000.00	0	0.601	1,435,000.00
MAS 5.25 8-1-25 Pre-	57582PFQ8	5.250%	2,360,000.00	8/1/2017		0.088	4/2/2015	51,625.00	2,368,947.10	0	0.700	2,367,127.20
FNYSCD 5.0 8-15-33 P	346424ZP2	5.000%	1,050,000.00	8/15/2017		0.126	4/26/2016	19,833.33	1,055,531.18	0	0.680	1,054,662.00
HORSCD 5.0 3-1-19	440673A76	5.000%	1,000,000.00	3/1/2019		1.601	4/4/2016	16,666.67	1,066,874.80	0	0.920	1,063,690.00
DAN 3.0 6-1-19	2360917D0	3.000%	1,500,000.00	6/1/2019		1.877	9/28/2016	3,750.00	1,559,519.44	0	0.901	1,553,220.00
Subtotal Municipal Bonds		0.467%	7,345,000.00	3/6/2018		0.664		127,750.00	7,485,872.52		0.751	7,473,699.20
TOTAL FUND 9901		0.467%	7,345,000.00	3/6/2018		0.66		127,750.00	7,485,872.52		0.75	7,473,699.20

**INVESTMENT BY SECTOR AND MATURITY - HOUSING DEPARTMENT SECTION 108 FUND 9902
AS OF June 30, 2017**

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 0.61 7-6-17	912796LG2	0.610%	4,400,000.00	7/6/2017		0.016	1/5/2017	0.00	4,399,624.82	0	0.612	4,399,722.80
B 0.65 8-17-17	912796KF5	0.650%	3,500,000.00	8/17/2017		0.131	2/16/2017	0.00	3,497,012.28	0	0.652	3,496,045.00
Subtotal Treasury Bills		0.627%	7,900,000.00	7/24/2017		0.067		0.00	7,896,637.10		0.630	7,895,767.80
TOTAL FUND 9902		0.627%	7,900,000.00	7/24/2017		0.067		0.00	7,896,637.10		0.630	7,895,767.80
GRAND TOTALS		1.488%	3,634,441,938.00	10/27/2018		1.302		7,685,478.78	3,649,266,912.42		1.210	3,640,824,402.99

Appendix II

Investments by Sector and Maturity as of March 31, 2017

Description	CUSIP	Coupon	Par Value	Maturity Date	Call Date Avg Life	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value
NYC 2.15 6-1-20	64966LN56	2.150%	1,000,000.00	6/1/2020		3.058	11/14/2016	7,166.67	1,018,721.54	0	1.540	1,007,920.00
ENEPWR 2.653 7-1-20	29270CYN9	2.653%	1,500,000.00	7/1/2020		3.119	7/1/2016	9,948.75	1,559,153.61	0	1.400	1,533,915.00
ENEPWR 2.653 7-1-20	29270CYN9	2.653%	1,190,000.00	7/1/2020		3.117	12/6/2016	7,892.68	1,212,364.91	0	2.050	1,216,905.90
ENEPWR 2.117 7-1-20	29270CL52	2.117%	1,000,000.00	7/1/2020		3.142	3/31/2017	5,292.50	1,005,220.00	0	1.950	1,005,240.00
VVYHGR 1.676 8-1-20	92603PEQ1	1.676%	1,445,000.00	8/1/2020		3.247	10/31/2016	4,036.37	1,450,852.98	0	1.550	1,417,732.85
CHAPWR 2.3 9-1-20	162393EY4	2.300%	1,000,000.00	9/1/2020		3.301	10/20/2015	1,916.66	1,013,979.26	0	1.870	1,004,300.00
ANAHSG 1.565 10-1-20	032556CA8	1.565%	2,915,000.00	10/1/2020		3.408	11/1/2016	20,528.89	2,901,714.30	0	1.700	2,846,730.70
DALUTL 2.21 10-1-20	2354167C2	2.210%	2,400,000.00	10/1/2020		3.354	2/7/2017	26,520.00	2,416,932.28	0	2.000	2,422,824.00
PTMTRN 2.737 9-1-21	73474TAG5	2.737%	1,400,000.00	9/1/2021		4.185	11/22/2016	3,193.17	1,434,291.18	0	2.150	1,430,268.00
Subtotal Municipal Bonds		2.050%	288,055,000.00	6/23/2018		1.203		1,721,864.17	290,672,984.83		1.285	290,352,747.80
Money Market Mutual Funds												
CHASE MONEY MARKET F		0.010%	0.00	4/1/2017		0.000	2/1/2008	(0.05)	0.00	0	0.010	0.00
TexStar960 Cash Rese		0.616%	120,537,236.42	4/1/2017		0.003	7/1/2011	15.26	120,537,236.42	0	0.616	120,537,236.42
Subtotal Money Market Mutual Funds		0.616%	120,537,236.42	4/1/2017		0.003		15.21	120,537,236.42		0.616	120,537,236.42
TOTAL FUND 9900		1.457%	4,050,251,394.22	9/6/2018		1.388		18,562,818.40	4,067,345,388.33		1.139	4,059,282,713.59

**INVESTMENT BY SECTOR AND MATURITY - TAX EXEMPT FUND 9901
AS OF March 31, 2017**

Description	Coupon	Par Value	Maturity Date	Call Date	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value	
Municipal Bonds												
GAS 5.0 7-1-17	373384YG5	5.000%	1,435,000.00	7/1/2017		0.252	4/25/2016	17,937.50	1,450,757.66	0	0.601	1,449,550.90
MAS 5.25 8-1-25 Pre-	57582PFQ8	5.250%	2,360,000.00	8/1/2017		0.337	4/2/2015	20,650.00	2,395,592.84	0	0.700	2,393,700.80
FNYSKD 5.0 8-15-33 P	346424ZP2	5.000%	1,050,000.00	8/15/2017		0.375	4/26/2016	6,708.33	1,066,780.17	0	0.680	1,065,855.00
HORSCD 5.0 3-1-19	440673A76	5.000%	1,000,000.00	3/1/2019		1.848	4/4/2016	4,166.67	1,076,900.48	0	0.920	1,073,920.00
DAN 3.0 6-1-19	2360917D0	3.000%	1,500,000.00	6/1/2019		2.114	9/28/2016	22,875.00	1,567,279.11	0	0.901	1,558,905.00
Subtotal Municipal Bonds		4.672%	7,345,000.00	3/5/2018		0.908		72,337.50	7,557,310.26		0.751	7,541,931.70
TOTAL FUND 9901		4.672%	7,345,000.00	3/5/2018		0.91		72,337.50	7,557,310.26		0.75	7,541,931.70

**INVESTMENT BY SECTOR AND MATURITY - HOUSING DEPARTMENT SECTION 108 FUND 9902
AS OF March 31, 2017**

Description	Coupon	Par Value	Maturity Date	Call Date	Mod DTW	Purchase Date	Accrued Interest	Book Value	YTC	Current Yield	Market Value	
Treasury Bills												
B 0.61 7-6-17	912796LG2	0.610%	4,400,000.00	7/6/2017		0.266	1/5/2017	0.00	4,392,796.49	0	0.612	4,391,226.40
B 0.65 8-17-17	912796KF5	0.650%	3,500,000.00	8/17/2017		0.381	2/16/2017	0.00	3,491,227.56	0	0.652	3,489,573.50
Subtotal Treasury Bills		0.628%	7,900,000.00	7/24/2017		0.316		0.00	7,884,024.05		0.630	7,880,799.90
TOTAL FUND 9902		0.628%	7,900,000.00	7/24/2017		0.316		0.00	7,884,024.05		0.630	7,880,799.90
GRAND TOTALS		1.461%	4,065,496,394.22	7/23/2018		1.298		18,635,155.90	4,082,786,722.64		1.137	4,074,705,445.19