Ventura Regional Sanitation District

Portfolio Review

Quarter Ending September 30, 2019

Presented By:

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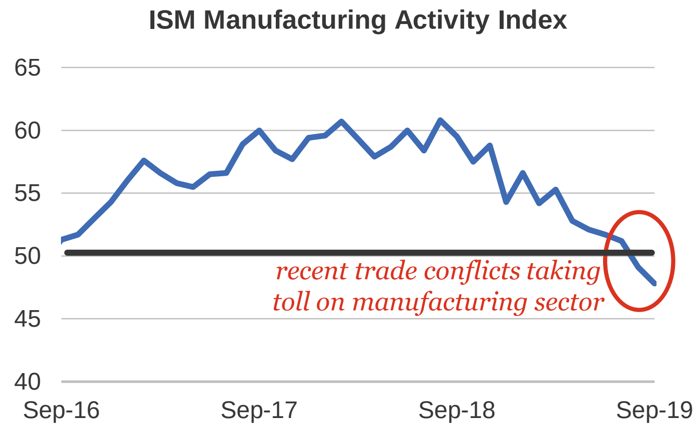
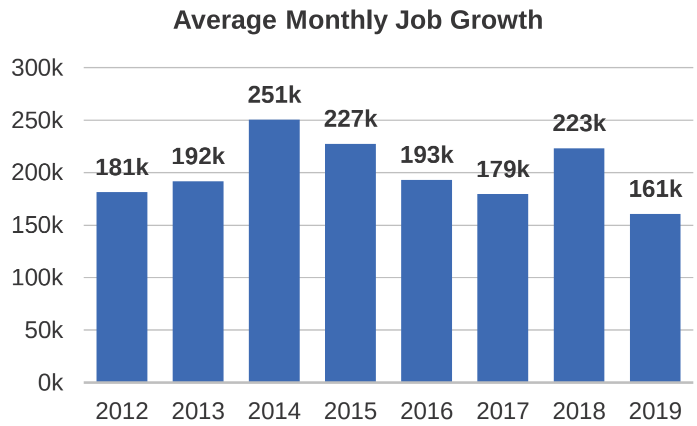
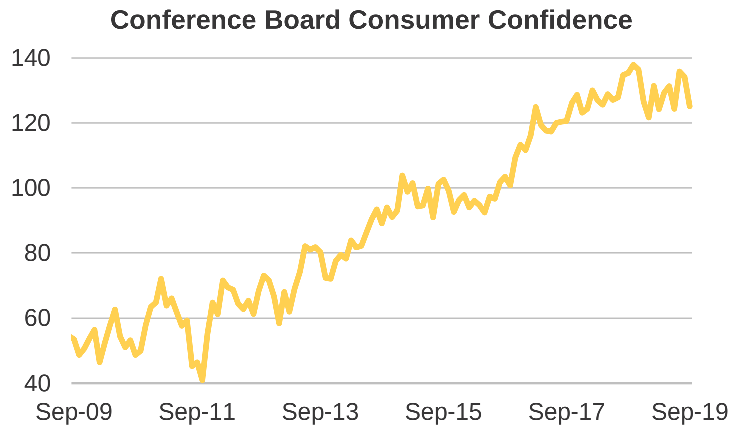
Market Indicators Mixed, but Recession Does Not Appear Imminent

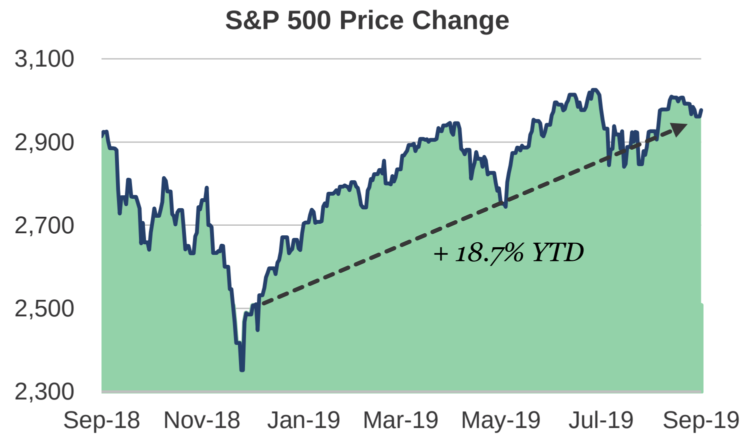
Recession fears growing as manufacturing slows and job growth moderates…





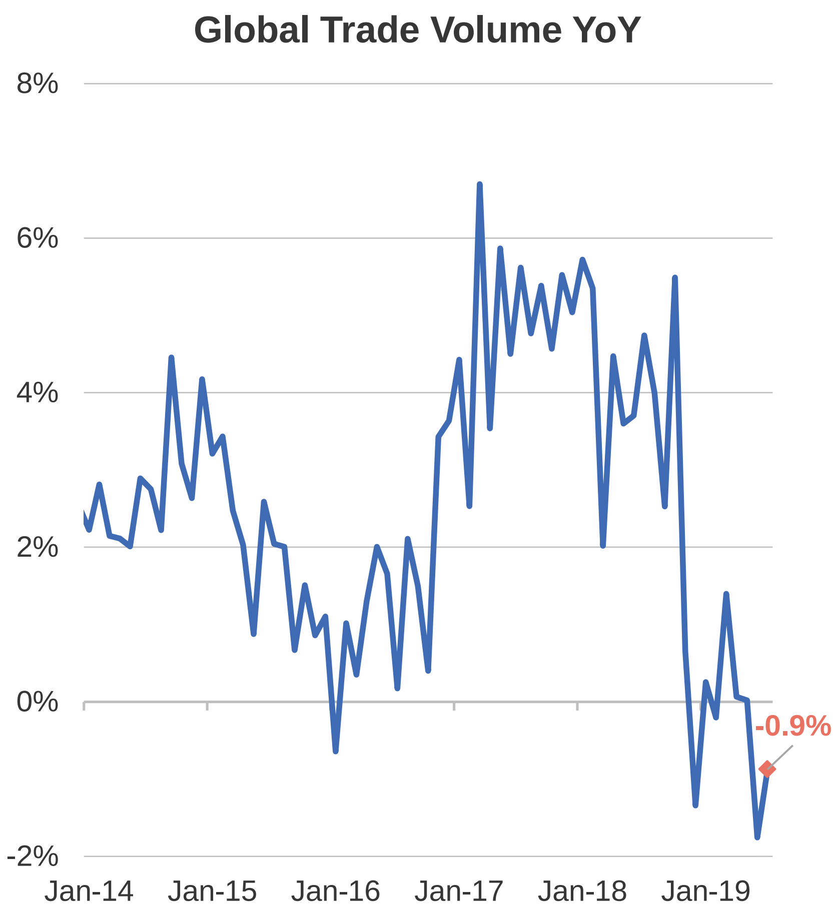
…but consumers remain confident and financial markets seem optimistic

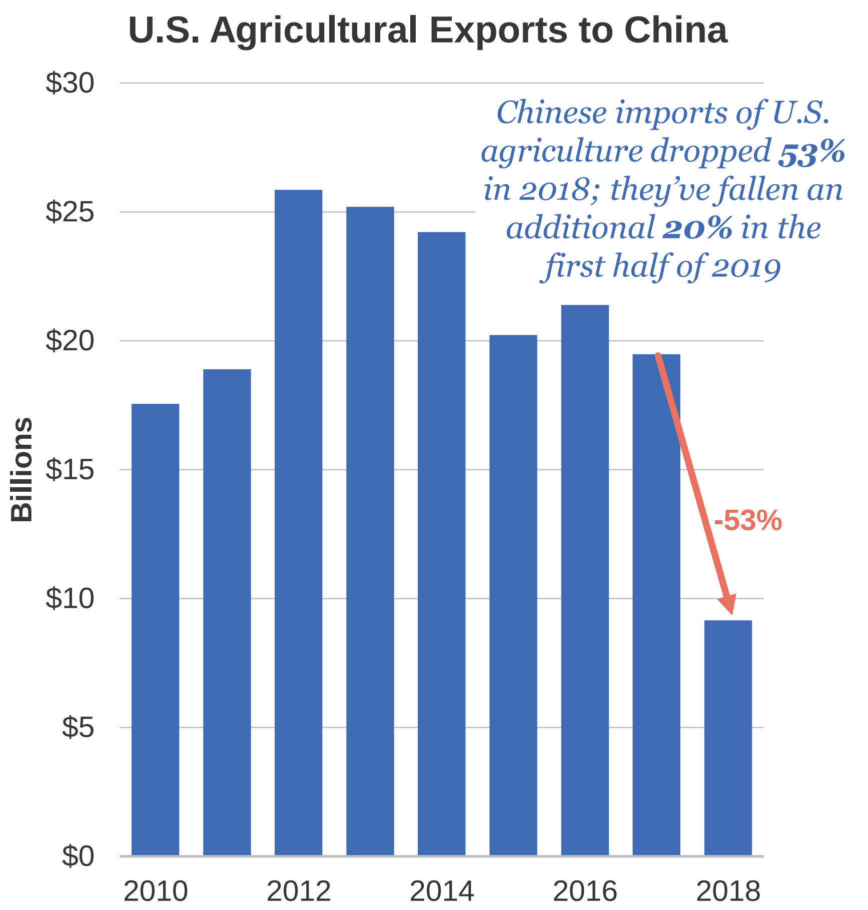




Source: Bloomberg, data available as of 9/30/19.

Tariffs Take a Toll on Global Trade Volume, Especially U.S. Agriculture





Source: CPB (left); Wall Street Journal & USDA Foreign Agricultural Service (right).

The OECD Follows World Bank & IMF in Lowering Growth Projections

- The world growth outlook was cut to **2.9%** for 2019, down from the **3.2%** projection from 4 months ago
- This rate is the slowest pace since the global financial crisis

"The global economy has become increasingly fragile and uncertain, with growth slowing and downside risks continuing to mount."

-OECD, 9/19/19

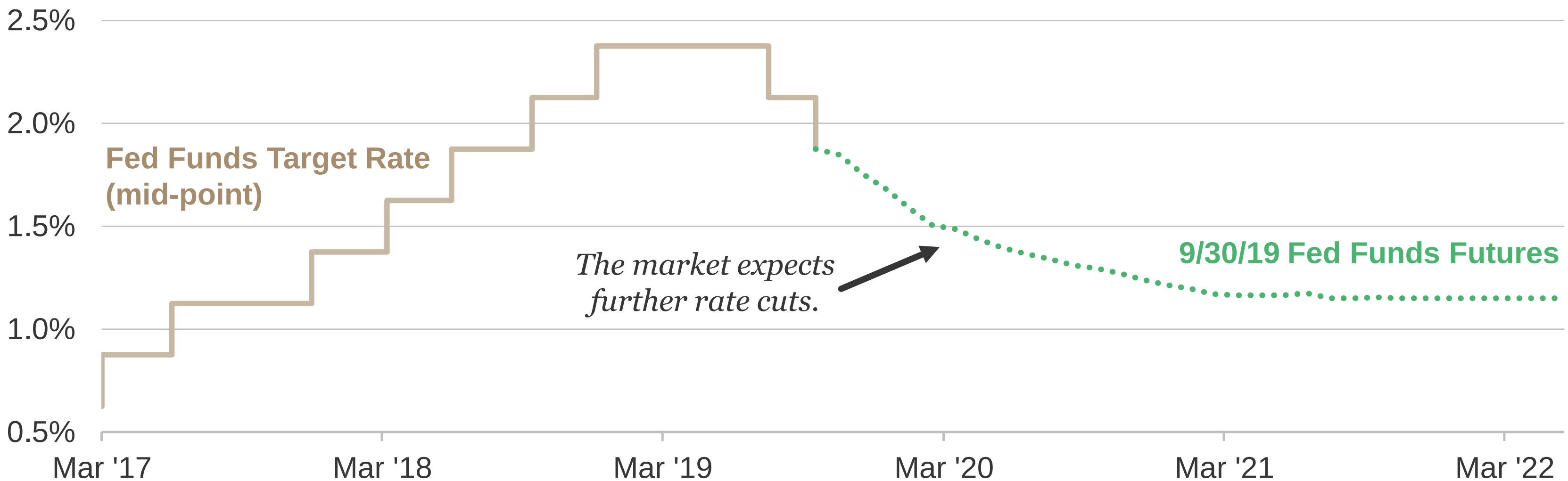
OECD GDP Growth Projections
September 2019

Region	2019	2020
World	2.9% ↓	3.0% ↓
U.S.	2.4% ↓	2.0% ↓
China	6.1% ↓	5.7% ↓
United Kingdom	1.0% ↓	0.9% ↓
Euro Area	1.1% ↓	1.0% ↓
Germany	0.5% ↓	0.6% ↓
France	1.3%	1.2% ↓
Italy	0.0%	0.4% ↓
Japan	1.0% ↑	0.6%
Canada	1.5% ↑	1.6% ↓

Source: The Organisation for Economic Co-operation and Development. Arrows indicate change from prior projection.

The Federal Reserve Cut Rates in July and September

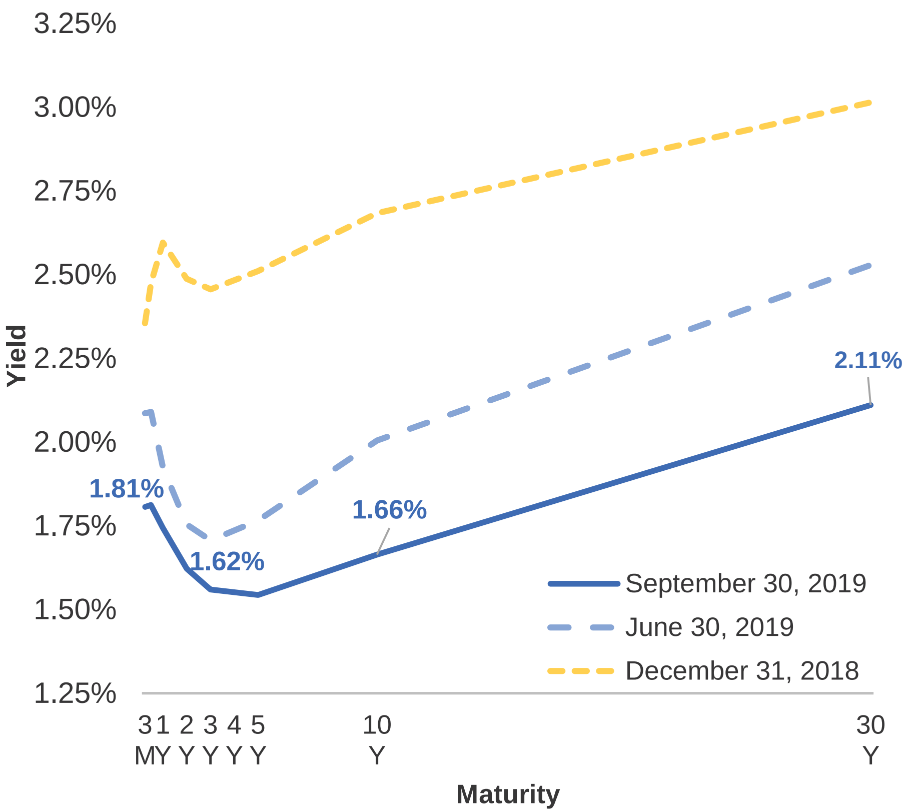
The Fed cited "…weak global growth …trade policy uncertainty …*and* muted inflation…"



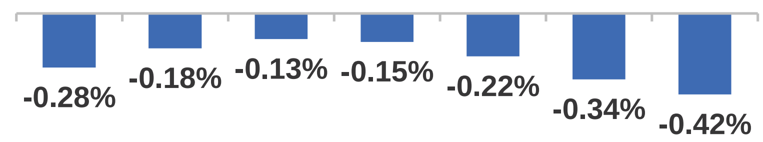
Source: Federal Reserve and Bloomberg.

Yields Continued to Decline in the Third Quarter

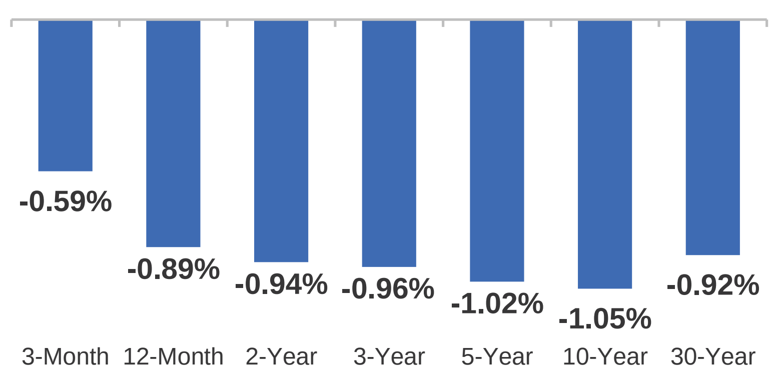
U.S. Treasury Yield Curve



Q3 Change in Yield



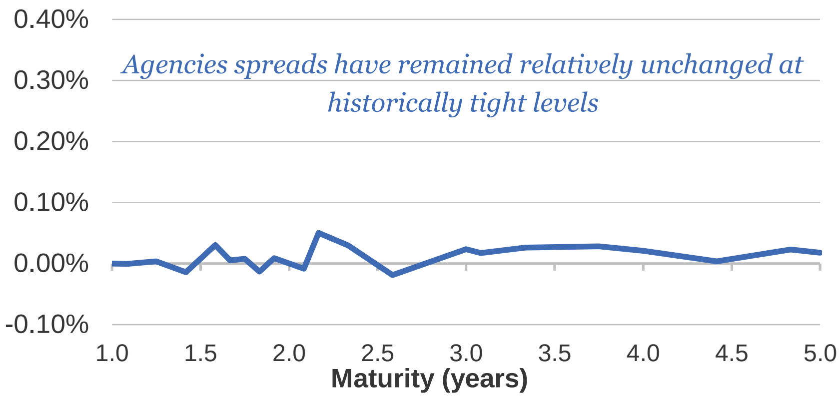
YTD Change in Yield



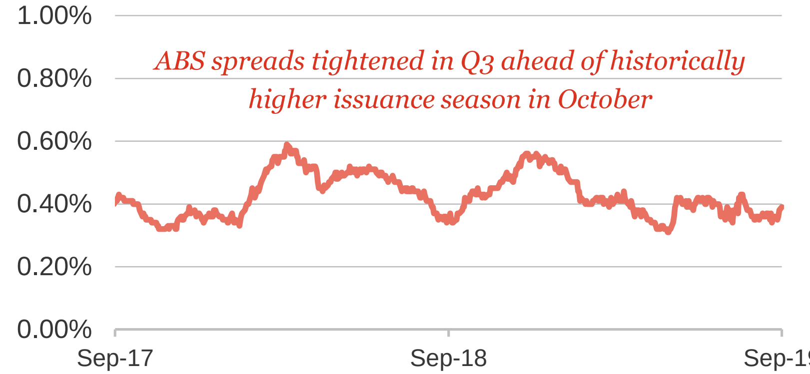
Source: Bloomberg, as of 9/30/19.

Yield Spreads Narrow Across All Spread Sectors

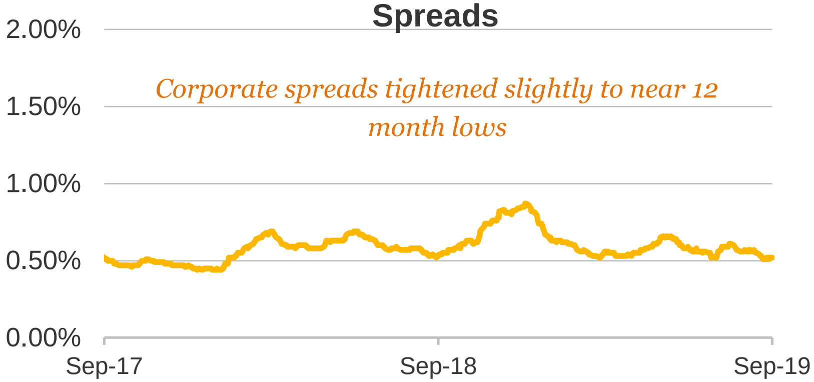
Federal Agency Yield Spreads



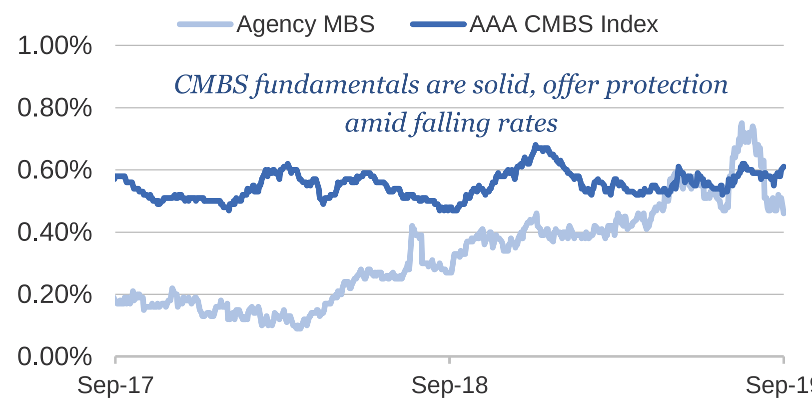
Auto Asset-Backed Securities Yield Spreads



Corporate Notes (1-5 yr. A-AAA) Yield Spreads



Mortgage-Backed Securities Yield Spreads



Source: Bloomberg, MarketAxess and PFM. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. ICE BofAML 1-5 year Indices. Data as of 9/30/19. CMBS refers to Commercial Mortgage-Backed Securities.

Portfolio Sector Allocation and Compliance

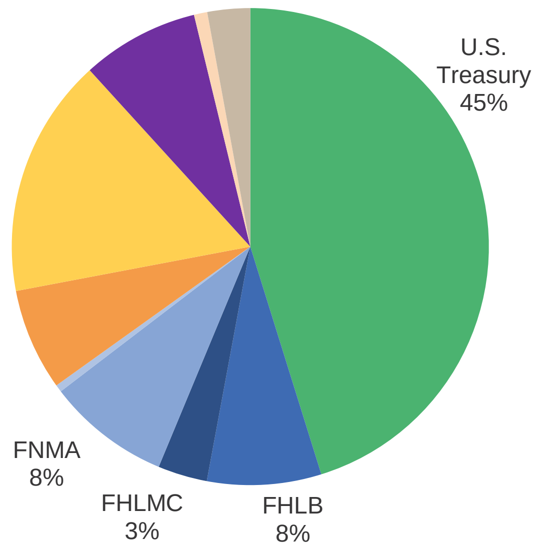
- The portfolios are in compliance with the District's Investment Policy and the California Government Code.

Security Type	Market Value	% of Portfolio	% Change vs. 6/30/19	Permitted by Policy	In Compliance
U.S. Treasury	$17,539,751	44.9%	+0.9%	100%	✓
Federal Agency	$6,266,327	16.0%	-2.2%	100%	✓
Federal Agency CMOs	$1,275,500	3.3%	+0.1%	100%	✓
Municipal Bonds	$1,123,711	2.9%	+0.9%	30%	✓
Supranationals	$191,384	0.5%	-0.6%	30%	✓
Negotiable CDs	$2,680,312	6.9%	+1.8%	30%	✓
Corporate Notes	$6,298,718	16.1%	+1.5%	30%	✓
Commercial Paper	$349,569	0.9%	-2.5%	25%	✓
Asset-Backed Securities	$3,089,427	7.9%	-	20%	✓
Securities Sub-Total	**$38,814,697**	**99.3%**			
Accrued Interest	$185,198				
Securities Total	**$38,999,895**				
Money Market Fund	$261,490	0.7%	+0.2%	100%	✓
Total Managed Account	**$39,261,384**	**100.0%**			

- As of September 30, 2019. Detail may not add to total due to rounding.
- Prepared based on the District's Investment Policy revised December 15, 2016.
- The total amount invested in negotiable CDs, corporate notes, commercial paper, and asset-backed securities may not exceed 35%.

Sector and Issuer Distribution

Corporate Issuers (16.2%)	
BB&T Bank	1.5%
Morgan Stanley	1.3%
American Honda Finance	1.2%
JPMorgan Chase & Co	1.1%
John Deere Capital Corp	1.0%
IBM	1.0%
National Rural Uti'l Cooperative	0.9%
Bank of America Corp	0.8%
US Bancorp	0.8%
Walt Disney Company	0.8%
Caterpillar Financial	0.7%
American Express	0.7%
Toyota Motor Credit Corp.	0.7%
Waste Management	0.6%
Charles Schwab Corp	0.5%
Unilever PLC	0.5%
Home Depot Inc.	0.5%
Hershey	0.5%
Paccar Financial	0.4%
Boeing Co.	0.3%
Intel Corporation	0.3%
Comcast	0.1%



CP Issuers (0.9%)	
MUFG Bank	0.9%

Municipal Issuers (2.9%)	
CA ST Taxable GO Bonds	1.9%
Tamalpais, CA Taxable GO Bonds	0.7%
San Diego, CA Taxable GO Bonds	0.3%

ABS Issuers (8.0%)	
Citigroup ABS	1.2%
Ally Auto Receivables	1.0%
GM Financial	1.0%
Capital One ABS	1.0%
Nissan Auto Receivables	0.9%
Ford Auto Receivables	0.6%
CarMax Auto Owner Trust	0.6%
Toyota Auto Receivables	0.5%
Mercedes-Benz Auto Receivables	0.4%
Hyundai Auto Receivables	0.3%
Fifth Third Auto Trust 2017-1	0.3%
John Deere Owner Trust	0.2%

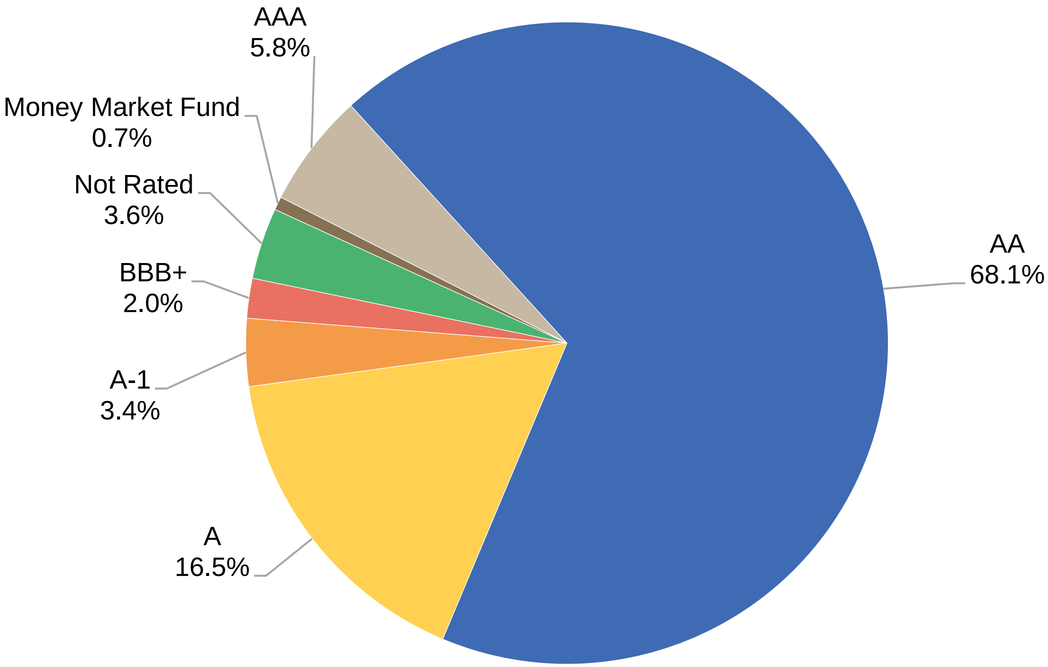
Supranational Issuers (0.5%)	
Int'l Finance Corp	0.5%
International Bank for Recon. and Dev.	<0.1%

CD Issuers (6.9%)	
UBS (CT)	1.5%
Sumitomo Mitsui Bank NY	1.3%
MUFG Bank	1.0%
Nordea Bank Finland (NY)	0.8%
Scandinaviska Enskilda (NY)	0.8%
Credit Suisse (NY)	0.6%
Royal Bank of Canada (NY)	0.5%
Westpac Banking Corp (NY)	0.3%
Bank of Nova Scotia (Houston)	0.2%

- As of September 30, 2019.
- Excludes accrued interest and money market funds.
- The total amount invested in negotiable CDs, corporate notes, commercial paper, and asset-backed securities may not exceed 35%
- There is overlap between the CP and CD issuers, so certain issuers are included only in the CP category.
- Detail may not add to totals due to rounding.

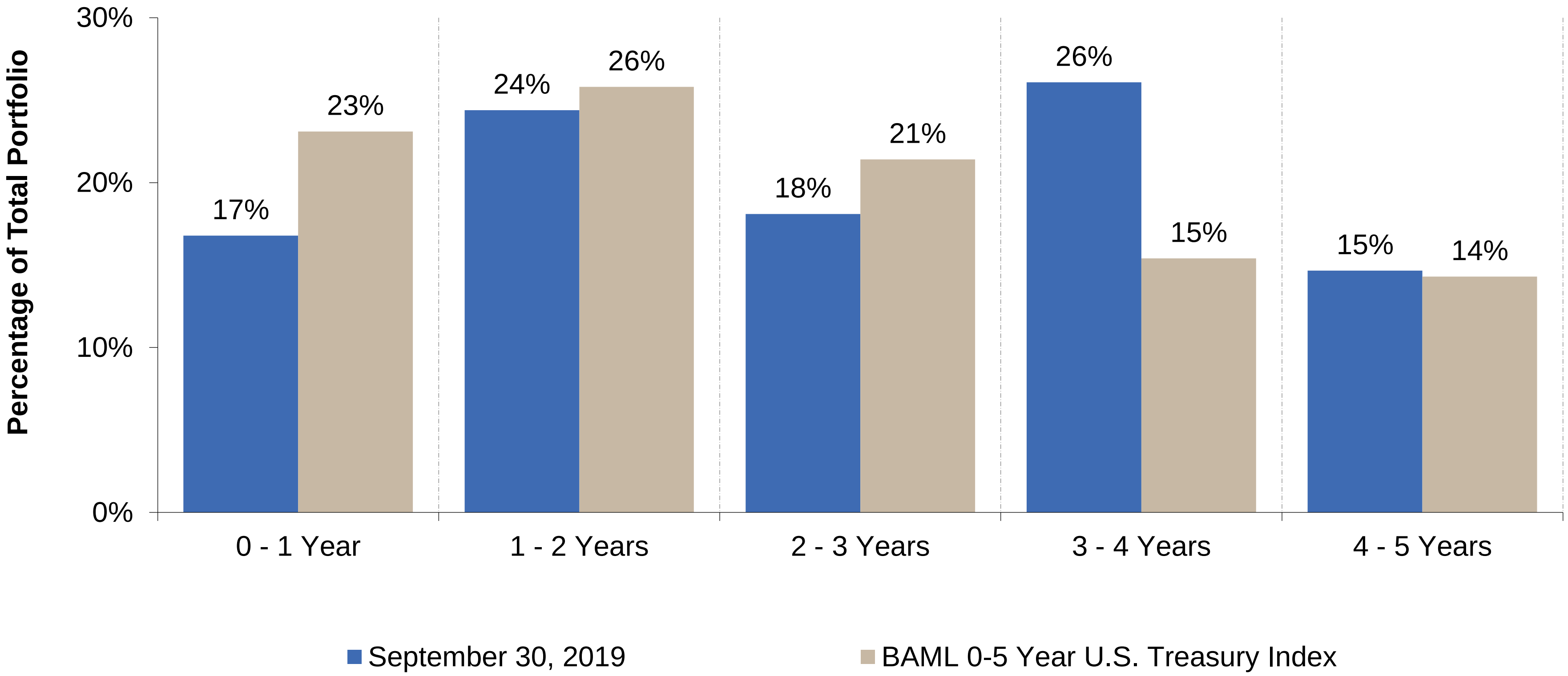
Credit Quality

- The District's aggregate portfolio has an average credit quality of AA.



- As of September 30, 2019. Percentages may not total 100% due to rounding.
- Securities rated BBB+ by S&P are rated A- or the equivalent or better by Fitch and/or Moody's.
- Securities Not Rated by S&P are asset-backed securities rated Aaa by Moody's.

Maturity Distribution



- ICE BofAML Indices by Bloomberg.
- Detail may not total to 100% due to rounding.
- Callable securities in the portfolio are included in the distribution analysis to their stated maturity date, although they may be called prior to maturity.

Portfolio Performance

- The portfolios continue to perform well relative to the benchmark.

Portfolio Durations, Total Rates of Return, and Yields
For periods ending September 30, 2019

	Duration (years)	Total Returns				Yield to Maturity at Cost
		Past Quarter	Past Year	Past 5 Years	Since Inception	
Total Portfolio	**2.20**	**0.81%**	**5.09%**	**1.77%**	**2.35%**	**2.32%**
Main	2.19	0.82%	5.11%	1.66%	2.39%	2.40%
Toland	2.23	0.82%	5.13%	1.79%	2.39%	2.28%
Coastal	2.24	0.80%	5.09%	1.79%	2.37%	2.26%
Bailard	2.15	0.79%	5.06%	1.77%	2.30%	2.30%
ICE BofAML 0-5 Year U.S. Treasury Index	**2.10**	**0.72%**	**4.98%**	**1.58%**	**2.23%**	**1.68%**

- Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Includes money market fund in performance and duration computations.
- Quarterly returns are presented on an unannualized basis. Performance numbers for periods greater than one year are presented on an annualized basis.
- ICE BofAML Indices provided by Bloomberg.
- Inception date for the combined portfolio is 6/30/2007 and is the case for all individual portfolios except for the Main portfolio which has an inception date of 12/31/2006.

Fixed-Income Sector Outlook – October 2019

Sector	Our Investment Preferences	Comments
COMMERCIAL PAPER / CD		• CP/negotiable CD spreads are near historic tights, though securities appear cheap relative to corporate notes.
TREASURIES		• Treasury bill supply is expected to increase by over $100 billion during the fourth quarter. • The Treasury yield curve remains inverted, providing little opportunities to benefit from roll-down.
T-Bill		
T-Note		
FEDERAL AGENCIES		• Federal agency spreads remain near historic tights. Treasuries continue to be attractive relative to agencies. • Callables have been underperforming duration-matched bullets as redemption activity has been elevated, especially in short lock-out structures.
Bullets		
Callables		
SUPRANATIONALS		• Spreads remain near historical tights; Treasuries have better value. • There may be opportunities to sell at single digit yield spreads before a possible demand-side technical decay into year-end.
CORPORATES		• Tighter credit spreads and a cloudy economic outlook have reduced the attractiveness of the corporate sector. • Steady demand from foreign investors and a lower interest rate environment, supported by recent FOMC action, are both positives for the sector.
Financials		
Industrials		
SECURITIZED		• The AAA-rated ABS sector offers a defensive outlet to credit exposure but has tightened to near multi-year tights. • As interest rates have fallen and supply has increased, MBS spreads have widened significantly to a more historic norm. We view this as a buying opportunity. • Agency CMBS are an attractive alternative to other government sectors due to their incremental income potential.
Asset-Backed		
Agency Mortgage-Backed		
Agency CMBS		
MUNICIPALS		• The low interest rate environment should spur refunding activity and increase taxable municipal supply.

Current outlook   *Outlook one month ago*

Negative	Slightly Negative	Neutral	Slightly Positive	Positive

Investment Strategy

- Our strategy as we enter the final quarter of 2019 is to maintain a well-diversified portfolio as we seek to balance portfolio earnings potential with profit-taking in sectors that appear overly expensive. Issue selection has become increasingly important, regardless of sector, as market cross-currents have created both risks and opportunities.

- Our outlook for the major investment-grade fixed income sectors is as follows:

  - Federal agency yield spreads remain very tight. In some cases, agencies offer yields less than those on Treasuries of similar maturity. The U.S. Treasury Department also released an updated housing reform plan that seeks to reduce the role of the Federal Government, but implementation faces many political and practical difficulties. We continue to favor further reductions in agency holdings because their upside is limited.

  - Supranational yield spreads remain at multi-year lows, and we plan to further reduce allocations.

  - In the investment-grade (IG) corporate sector, we remain cautiously optimistic. Stable fundamentals, positive earnings growth, and a resilient equity market support the underlying stability of the credit markets; however, in addition to the myriad of geopolitical issues that have yet to be resolved, increased balance sheet leverage translates into somewhat elevated financial risks, especially in light of the narrow spreads currently available. As a result, we plan to reduce "rich" corporate holdings while creating room for new corporate opportunities as they become available.

  - ABS spreads are near multi-year lows, but underlying fundamentals remain firm. We plan to maintain ABS positions near current levels while seeking to opportunistically reduce allocations to structures inside of one year.

  - Increasing new home supply and accelerating prepayments are expected to weigh on the MBS sector over the near term. While spreads snapped back modestly near quarter-end, relative value in the sector is now attractive. Our preference is for structures that are less sensitive to interest rate movements — in particular, commercial MBS (CMBS) and well-seasoned mortgage pools that have less prepayment variability.

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