

San Diego County Regional Airport Authority

Investment Strategy Update



Presented by:

Vernon D. Evans, CPA

Vice President, Finance / Treasurer & CFO

Scott Brickner, CPA

Director, Financial Planning and Budget

February 25, 2013



San Diego County Regional Airport Authority Investment Strategy Discussion

February 25, 2013

PFM Asset Management LLC



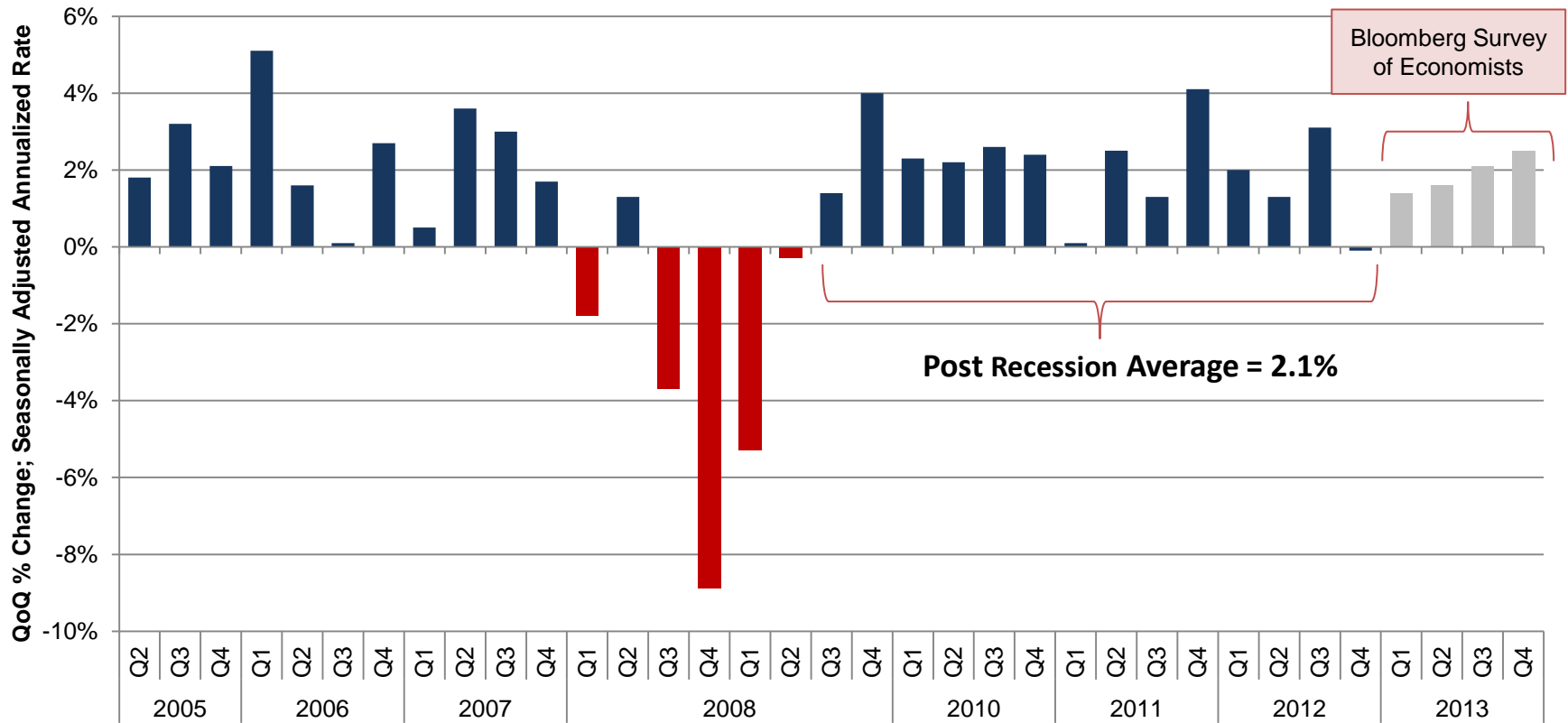
Presentation Outline

- Current Investment Environment
- Current Portfolio
- Strategy Overview
- Understanding The Implications of Different Strategy Options
- Initial Strategy Recommendations
- Analysis Assumptions



U.S. Economic Growth Expectations Are Moderate

U.S. Gross Domestic Product (GDP)
2Q05 – 4Q12

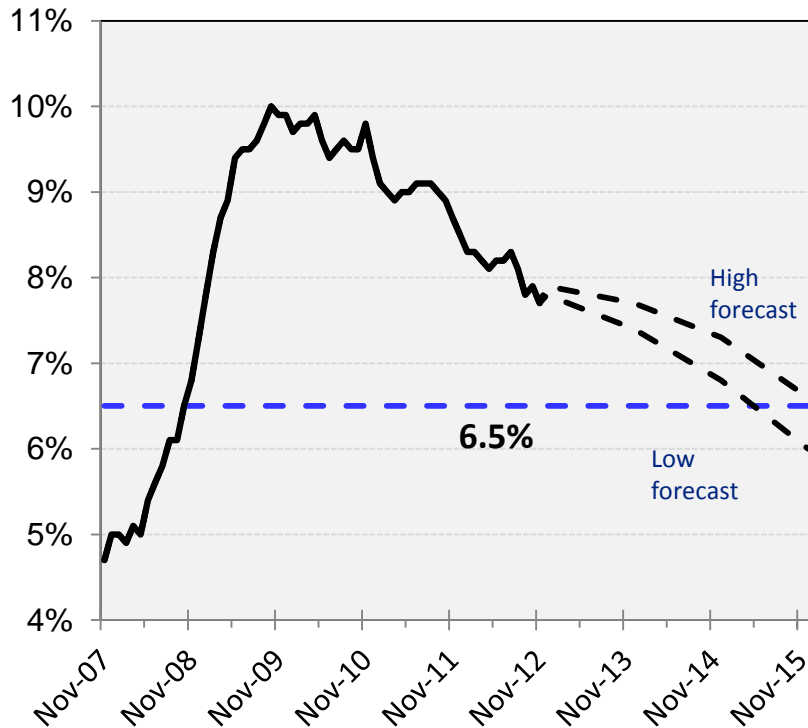




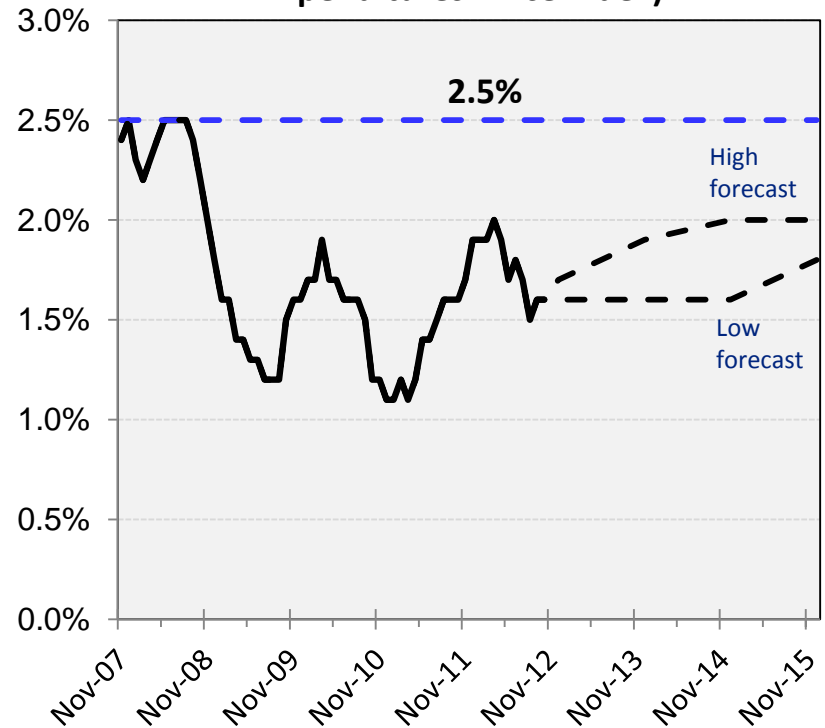
Fed Establishes Employment And Inflation Guidance

- The Fed removed the mid-2015 rate guidance from its statement and replaced it with targets for the unemployment rate (6.5%) and maximum inflation levels (2.5%).

Unemployment Rate



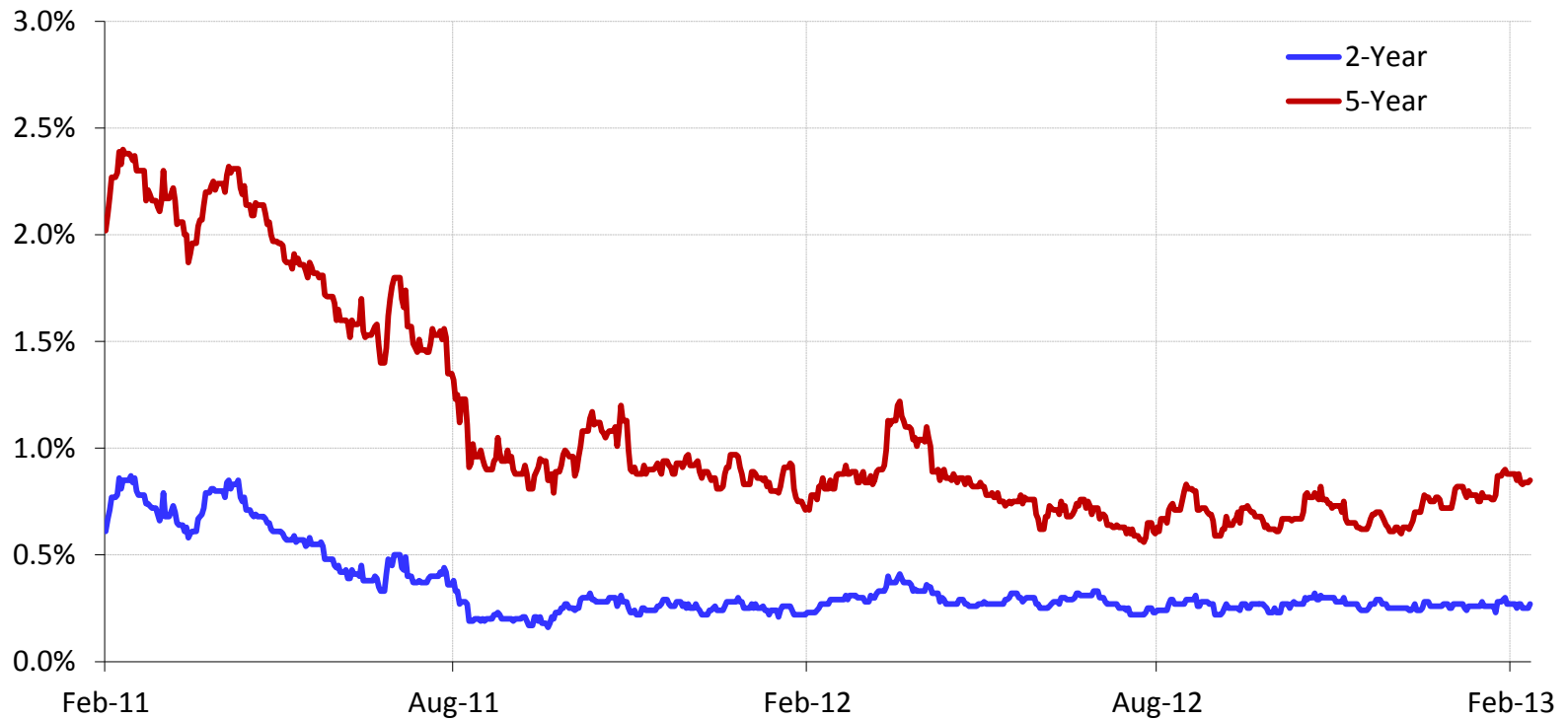
Core Inflation (Personal Consumption Expenditures Price Index)





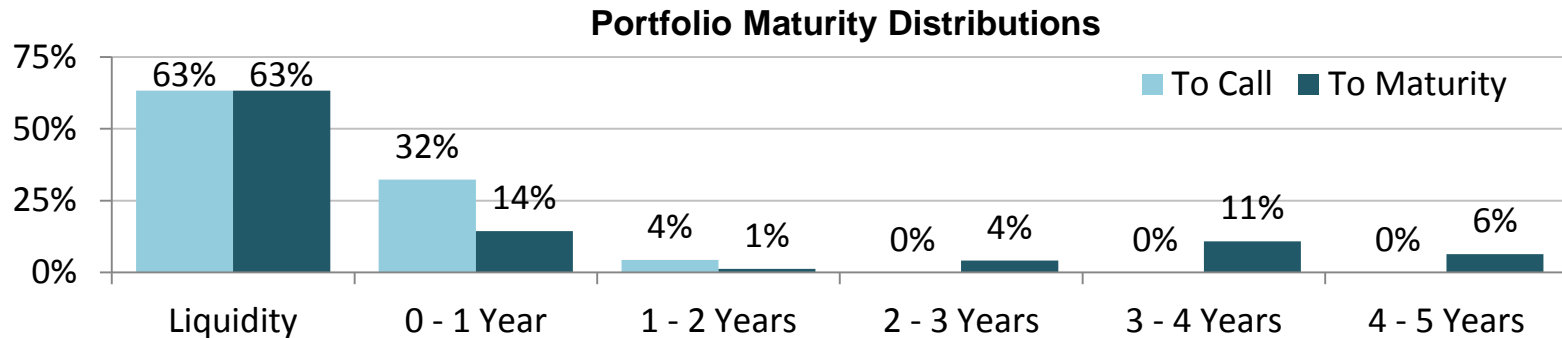
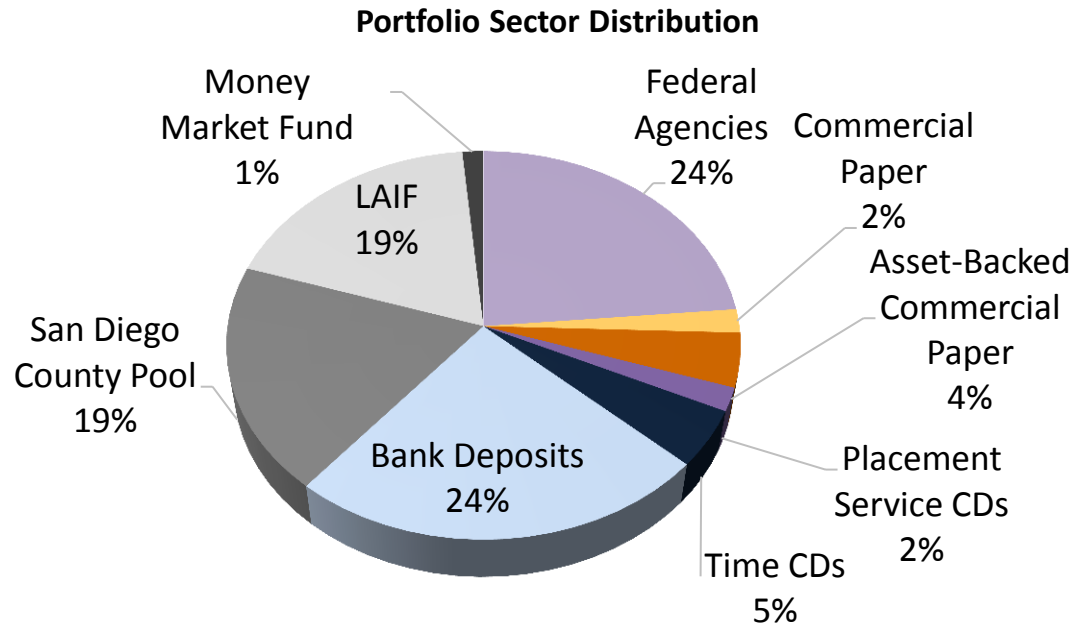
U.S. Treasury Yield History

U.S. Treasury Yields
February 1, 2003 – February 11, 2013





Portfolio – January 24, 2013



Weighted Average Maturity: 0.83 years
 Weighted Average Maturity to Call: 0.20 years



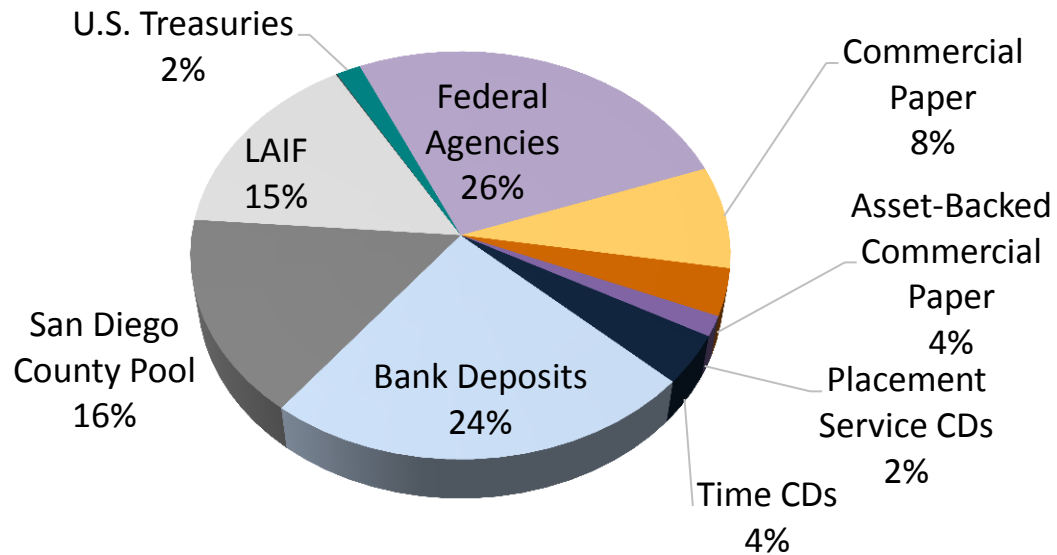
Investment Strategy Overview

- The overall objective is to enhance the Authority's investment program in support of the Authority's financial objectives
- Key concepts for enhancing the portfolio's long-term portfolio performance:
 - Maintain a focus on the Authority's long-term objectives
 - Enhance return by reducing excess liquidity
 - Extend the portfolio's average maturity target consistent with the Authority's liquidity requirements/ risk-return preferences
 - Maintain a diversified portfolio
 - Use spread product (corporate, municipal, mortgage-backed securities) to enhance returns
 - Actively manage the portfolio to enhance returns and manage risk
 - Implement long-term strategy as appropriate for market conditions
- There is no one investment strategy that will provide the best performance in all market environments

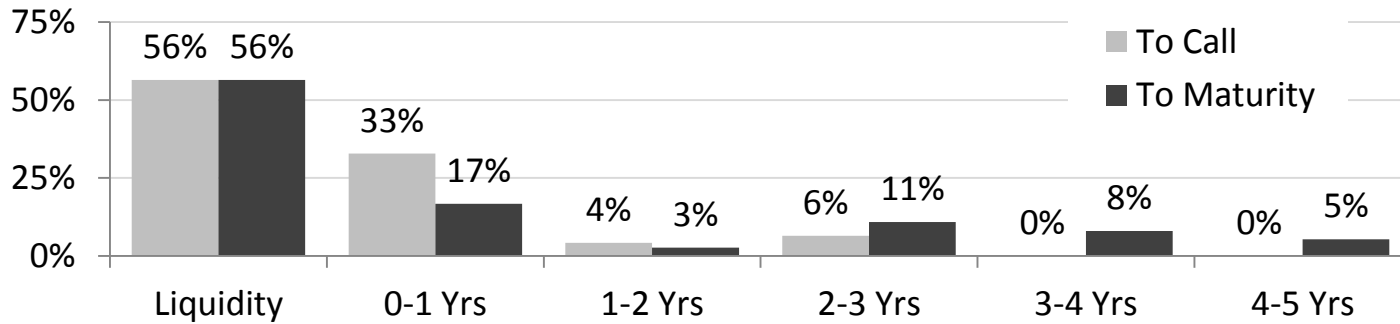


Portfolio – February 12, 2013

Portfolio Sector Distribution



Portfolio Maturity Distributions



Weighted Average Maturity: 0.93 years
 Weighted Average Maturity to Call: 0.40 years



Historical Total Return Comparison

- Longer duration portfolios have historically provided higher returns, but with greater total return volatility and market risk.

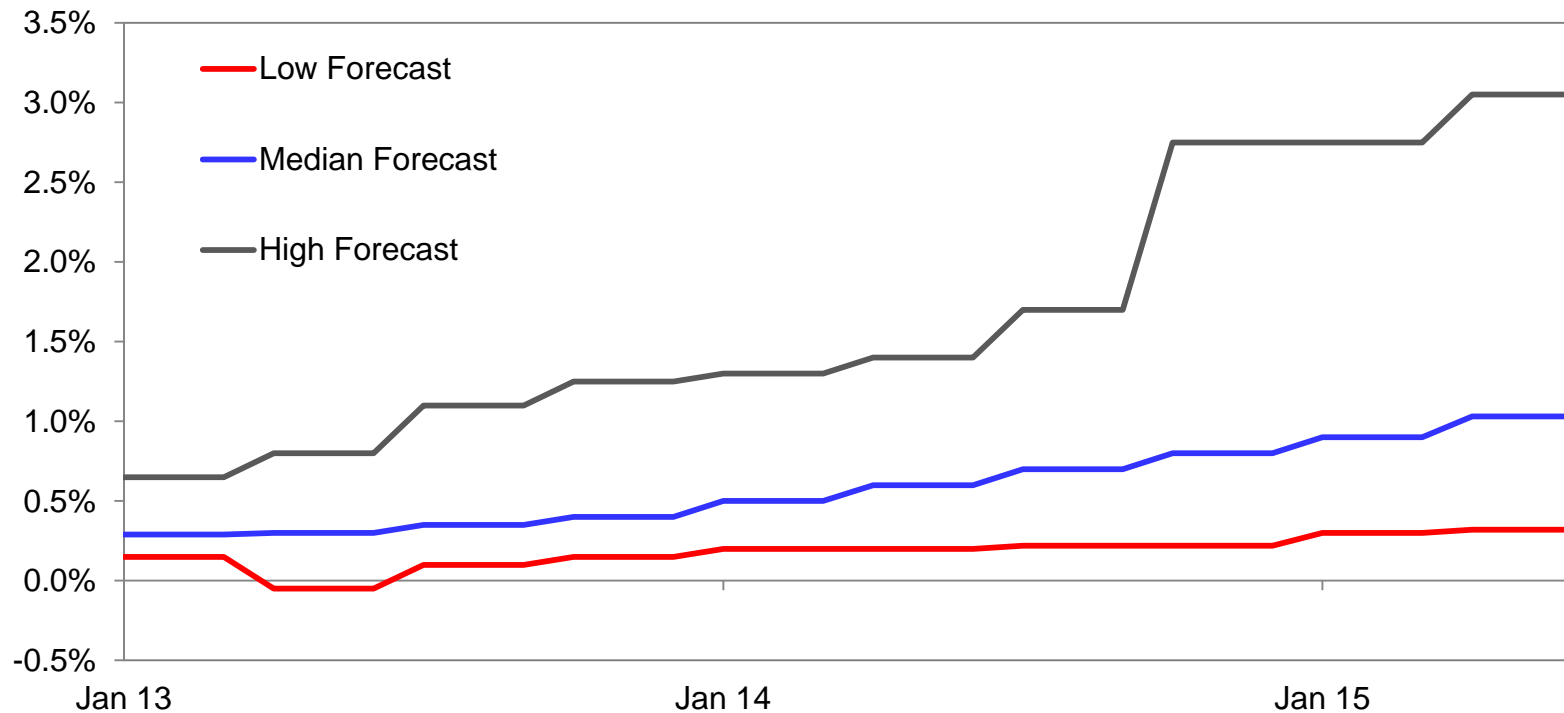
Total Return of Various Benchmarks					
Periods Ended September 30, 2012					
Pool/ Merrill Lynch Index	Duration	2-Year Return	5-Year Return	10-Year Return	Cumulative Value of \$100,000,000
LAIF	0.66 Years	0.42%	1.38%	2.25%	\$124,985,917
SDCIP	0.78 Years	0.62%	1.67%	--	--
1 Year Treasury Index	1.00 Years	0.41%	1.72%	2.24%	\$124,853,976
1-3 Year Treasury Index	1.89 Years	0.88%	2.78%	2.80%	\$131,857,187
1-5 Year Treasury Index	2.74 Years	1.76%	3.91%	3.40%	\$139,690,709
3-5 Year Treasury Index	3.86 Years	3.06%	5.73%	4.39%	\$153,665,098

Source: Bank of America/Merrill Lynch Indices
 LAIF return information: www.treasurer.ca.gov/pmia-laif
 SDCIP return information: [/www.sdtreastax.com/treasury.html](http://www.sdtreastax.com/treasury.html)
 Earnings based on historical results which may not recur



2-Year U.S. Treasury Forecast

Bloomberg 2-Year U.S. Treasury Yield Forecasts
January 2013 – June 2015



Source: Bloomberg
Bloomberg forecast through June 30, 2015, as of February 12, 2013



Understanding The Impact of Rising Rates

- Market value of securities/portfolios with longer durations suffer most with rising interest rates.

Impact of Rate Change on \$10 million Investment with Varying Durations

Portfolio Duration	Simultaneous Change in Interest Rates								
	(0.50%)	(0.25%)	No Change	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%
1.50	75,000	37,500	-	(37,500)	(75,000)	(112,500)	(150,000)	(187,500)	(225,000)
2.00	100,000	50,000	-	(50,000)	(100,000)	(150,000)	(200,000)	(250,000)	(300,000)
2.50	125,000	62,500	-	(62,500)	(125,000)	(187,500)	(250,000)	(312,500)	(375,000)
3.00	150,000	75,000	-	(75,000)	(150,000)	(225,000)	(300,000)	(375,000)	(450,000)

*Portfolio duration measured in years. Assumes instantaneous shock.
Market value fluctuations are approximations.*



Strategy Comparison

Yield Assumptions	2013	2014	2015	Average Yield (3 Yrs)
1-3 Year Portfolio Strategy Estimated Average Yields				
Low Forecast (0.25%)	0.26%	0.28%	0.33%	0.29%
Median Forecast	0.26%	0.43%	0.76%	0.48%
High Forecast	0.26%	0.80%	2.01%	1.02%
1-5 Year Portfolio Strategy Estimated Average Yields				
Low Forecast (0.38%)	0.44%	0.49%	0.55%	0.49%
Median Forecast	0.44%	0.59%	0.84%	0.62%
High Forecast	0.44%	0.83%	1.56%	0.94%
3-5 Year Portfolio Strategy Estimated Average Yields				
Low Forecast (0.60%)	0.60%	0.60%	0.60%	0.60%
Median Forecast	0.60%	0.60%	0.60%	0.60%
High Forecast	0.60%	0.60%	0.60%	0.60%

The purpose of the analysis is to illustrate the impact of different strategy options on a portfolio's average yield under different interest rate assumptions. The analysis is not intended to predict actual investment performance. Actual performance will vary.

Bloomberg Treasury yield forecasts were used as yield scenarios. Certain yields are interpolated.

The sample portfolios were structured using Treasury yields to provide consistency across scenarios and to avoid additional complication by introducing yield spreads for different investment sectors.



Comparison of Current Market Yields

Average Yields of Various BofA Merrill Lynch Indices
January 31, 2013

BofA Merrill Lynch Indices	Effective Duration (yrs.)	Yield
1-3 Year		
U.S. Treasury	1.87	0.25%
Agency	1.70	0.31%
Corp. A-AAA	1.94	1.02%
MBS 0-3	1.85	0.87%
Municipals	1.81	0.52%
1-5 Year		
U.S. Treasury	2.72	0.34%
Agency	2.36	0.42%
Corp. A-AAA	2.80	1.26%
MBS 0-3	2.11	0.91%
Municipals	2.53	0.71%

Source: Bloomberg BofA Merrill Lynch Indices

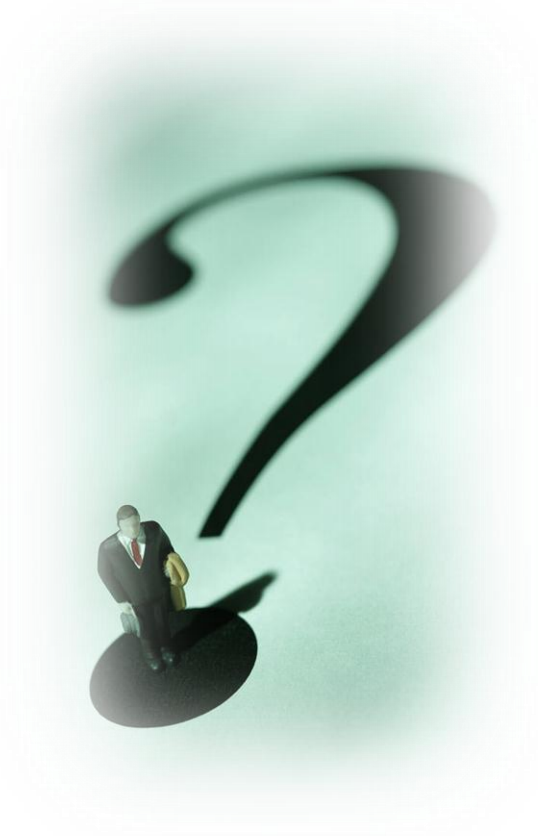


Strategy Recommendations

- Define the Authority's long-term liquidity requirements
- Structure portfolio between a short-term portion, which is structured to meet anticipated liquidity requirements, and a core portion, which is structured to enhance portfolio's long-term performance
- Reduce excess liquidity by shifting funds into the core portfolio over time as appropriate for market conditions
- Extend core portfolio's average maturity consistent with a 1-3 or 1-5 year structure based on the Authority's risk-return preferences
- This strategy represents a balance between very low short-term rates and the risk of higher rates in the future



Questions





Disclaimer

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.