



CONSENT CALENDAR

Agenda Item # 4

AGENDA REPORT SUMMARY

Meeting Date: February 27, 2018

Subject: Quarterly Investment Portfolio Report – Quarter Ended December 2017

Prepared by: Sharif Etman, Administrative Services Director

Approved by: Chris Jordan, City Manager

Attachment(s):

1. Portfolio Mix Charts
2. Investment Policy Compliance Chart
3. Investment Performance Review Quarter Ended December 31, 2017

Initiated by:

Staff

Fiscal Impact:

None

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- None

Summary:

- This report presents the status of the City's investment portfolio through December 31, 2017. The reporting model has been developed in coordination with PFM Asset Management LLC (PFM), the City's investment portfolio managers.

Staff Recommendation:

Receive the Investment Portfolio Report through December 31, 2017



Subject: Quarterly Investment Portfolio Report – Quarter Ended December 31, 2017

Purpose

These quarterly reports are presented to both the City Council and the Financial Commission to keep both bodies apprised as to the status of the City's investment holding and demonstrate compliance with the City's Investment Policy.

Background

A review of the Investment Portfolio Report Quarter Ended December 31, 2017 was presented and discussed by the Financial Commission.

Discussion/Analysis

The summary provided below presents the sum total of all City investment holdings. The City's portfolio book value, excluding operating cash and bond holdings as of December 31, 2017, was \$61,398,295.

As of December 31, 2017, 18% of the City's portfolio was placed in Federal Agency Securities (Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage and Federal Farm Credit), 33% in US Treasuries, and 13% in medium-term corporate Notes and Commercial Paper, 15% in Certificate of Deposits, with the balance of 22% in LAIF. This portfolio mix is illustrated as part of Attachment 1.

Full compliance with the City's Investment Policy is monitored closely and on a per trade basis as illustrated in Attachment 2. In accordance with California Government Code 53646(b)(3), the City of Los Altos has the ability to meet its pool expenditure requirements for the next six months.

As part of these quarterly updates, a status report is prepared by PFM which is included as Attachment 3: Investment Performance Review for the Quarter Ended December 31, 2017. It is important to note that this report highlights the performance of City investments that fall outside its liquid holdings with LAIF. This has been intentionally crafted to isolate the performance of the City's independently managed investments. The total return of the portfolio since inception is 0.76%, which is highlighted on page 12, of the PFM Investment Review Report (Attachment 3).

Options

1. Receive the Investment Portfolio Report Quarter Ended December 31, 2017

Advantages: None

Disadvantages: None



Subject: Quarterly Investment Portfolio Report – Quarter Ended December 31, 2017

2. Do not receive the Investment Portfolio Report Quarter Ended December 31, 2017

Advantages: None

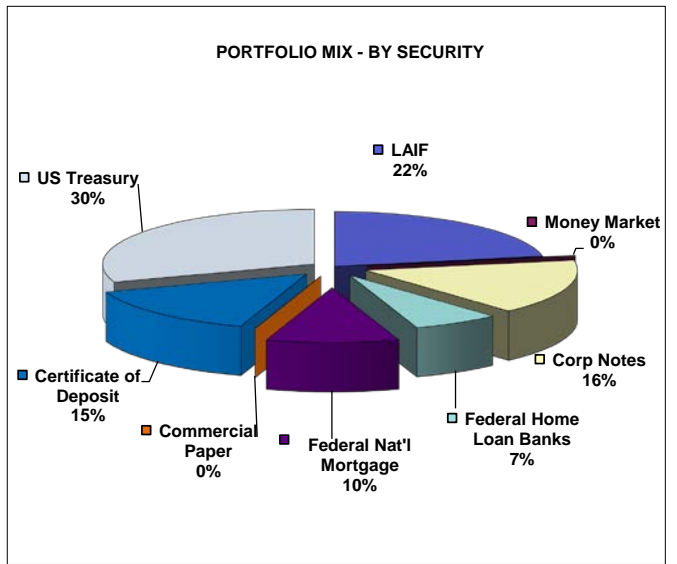
Disadvantages: None

Recommendation

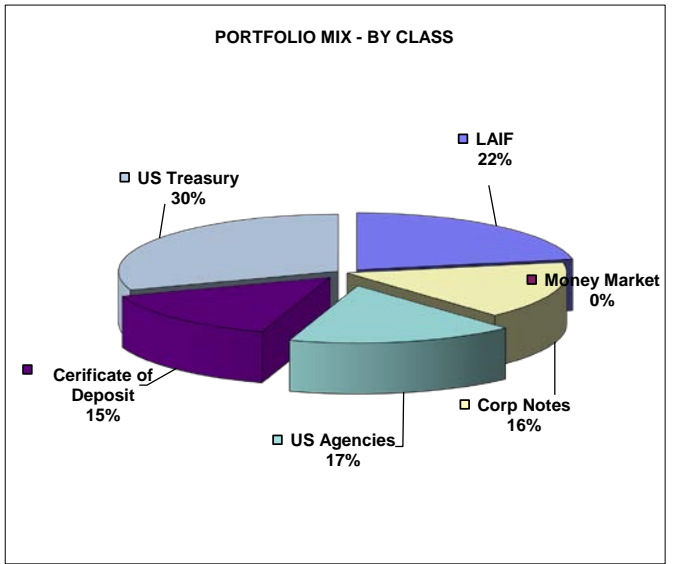
The staff recommends Option 1.

**Attachment 1
Portfolio Mix Charts
Dec 2017**

Security Type	% of Total	Portfolio Mix By Security
LAIF	22%	13,353,380
Money Market	0%	31,434
Corp Notes	16%	9,835,000
Federal Home Loan Banks	7%	4,025,000
Federal Nat'l Mortgage	10%	6,125,000
Commercial Paper	0%	-
Certificate of Deposit	15%	8,915,000
US Treasury	30%	18,385,000
	100%	60,669,814



Security Type	% of Total	Portfolio Mix Par Value	Market Value
LAIF	22%	13,353,380	13,353,380
Money Market	0%	31,434	31,434
Corp Notes	16%	9,835,000	9,788,312
US Agencies	17%	10,150,000	10,027,478
Certificate of Deposit	15%	8,915,000	8,885,479
US Treasury	30%	18,385,000	18,252,435
	100%	60,669,814	60,338,517
Corp Notes		9,835,000	9,788,312
US Treasury/Agencies		28,535,000	28,279,913
Certificate of Deposit		8,915,000	8,885,479
Accrued Interest		-	180,753
		47,285,000	47,134,456
Margin Over (Under) Par			(150,544)



Attachment 2
Investment Policy Compliance Chart
Dec 2017

City Investment	% Mix	Face Value	Latest Term	City Policy \$ Limitation	City Policy % Limitation	CAPACITY	% Compliance Yes/No	Term Compliance Yes/No
LAIF	22%	13,353,380	12/31/22	50,000,000	100%	36,646,621	Yes	N/A
Money Market	0%	31,434	12/31/22		20%	12,102,529	Yes	N/A
Corp Notes	16%	9,835,000	12/31/22		15%	(734,528)	No	No
Federal Agencies	17%	10,150,000	12/31/22		100%	50,519,814	Yes	Yes
Commercial Paper	0%	-	12/31/22		15%	9,100,472.03	Yes	Yes
Certificate of Depos	15%	8,915,000	09/30/21		50%	21,419,906.75	Yes	Yes
US Treasury	30%	18,385,000	12/31/22		100%	15,590,096	Yes	Yes
	<u>100%</u>	<u>60,669,814</u>						
All Agencies		62% 37,450,000			100%	23,219,813.50	Yes	
Callables		650,000			35%	20,584,435	Yes	



CITY OF LOS ALTOS

Investment Performance Review For the Quarter Ended December 31, 2017

Client Management Team

Monique Spyke, Managing Director

Izac Chyou, Senior Managing Consultant

50 California Street, Suite 2300

San Francisco, CA 94111

415-982-5544

PFM Asset Management LLC

One Keystone Plaza, Suite 300

Harrisburg, PA 17101-2044

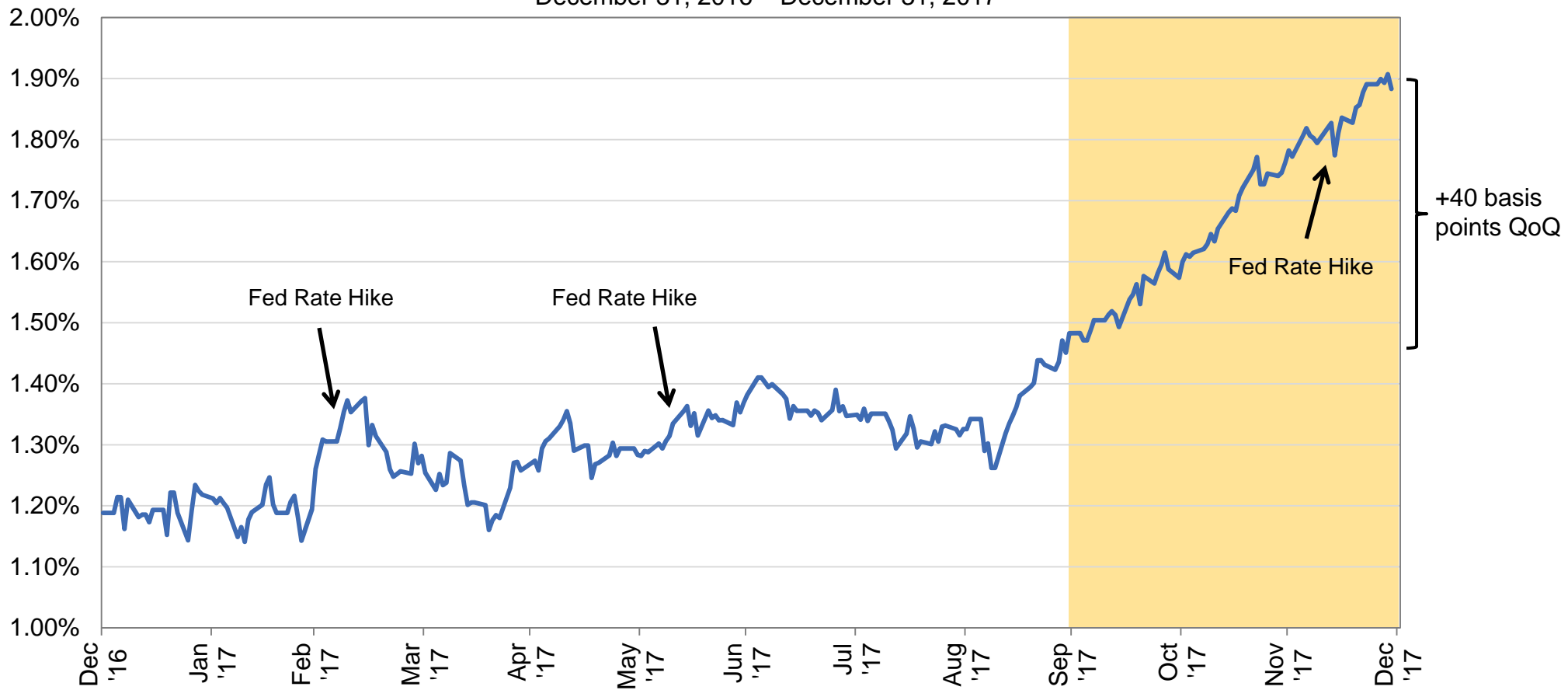
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Market Update

Interest Rate Update

- Two-year treasury yields moved notably higher for the year ended December 31, 2017; the increase was most pronounced during the fourth quarter as markets responded to another rate hike by the Federal Reserve and the passage of the largest overhaul of the U.S. tax system in more than thirty years.

2-Year Treasury Yields
December 31, 2016 – December 31, 2017



Source: Bloomberg, as of 12/31/17.

A Flattening Yield Curve

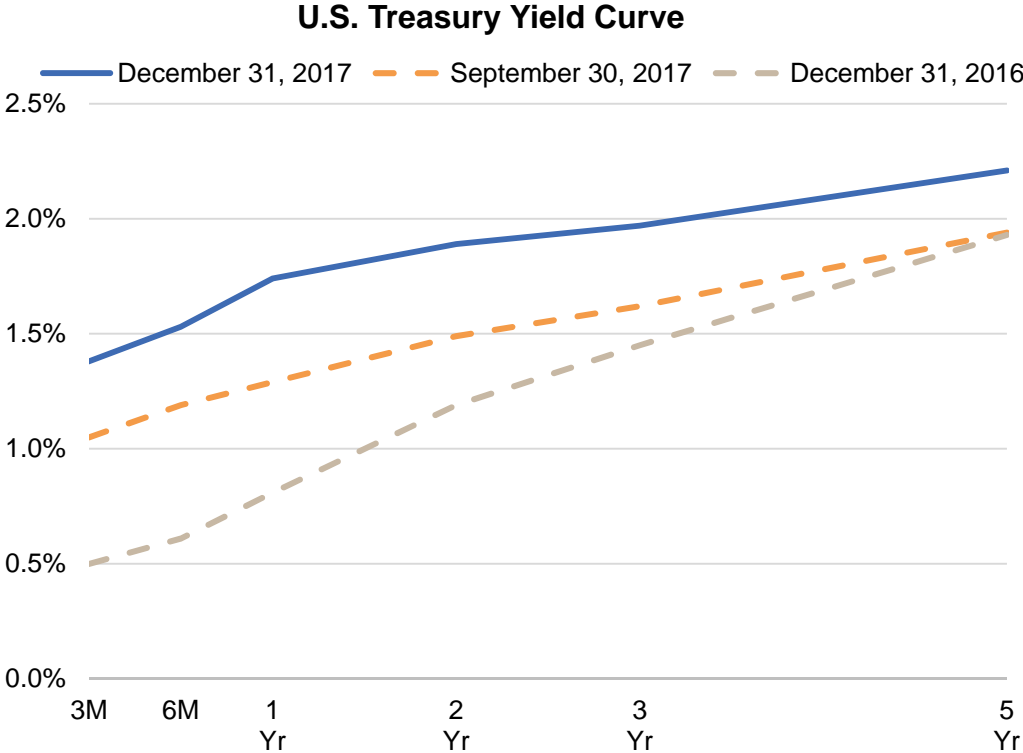
- The yield on the 2-year U.S. Treasury note has increased by 70 basis points (0.70%) this year, while the yield on the 10-year U.S. Treasury note has decreased by 3 basis points (0.03%) since the beginning of the year as expectations of future growth and inflation prospects have fallen.
- As a result, the spread between the 10-year U.S. Treasury and the 2-year U.S. Treasury is currently near a 10-year low.

10-Year/2-Year U.S. Treasury Spread
 January 1, 2002 – December 31, 2017



Source: Bloomberg, as of 12/31/17.

U.S. Treasury Yield Curve



Yield Curve History

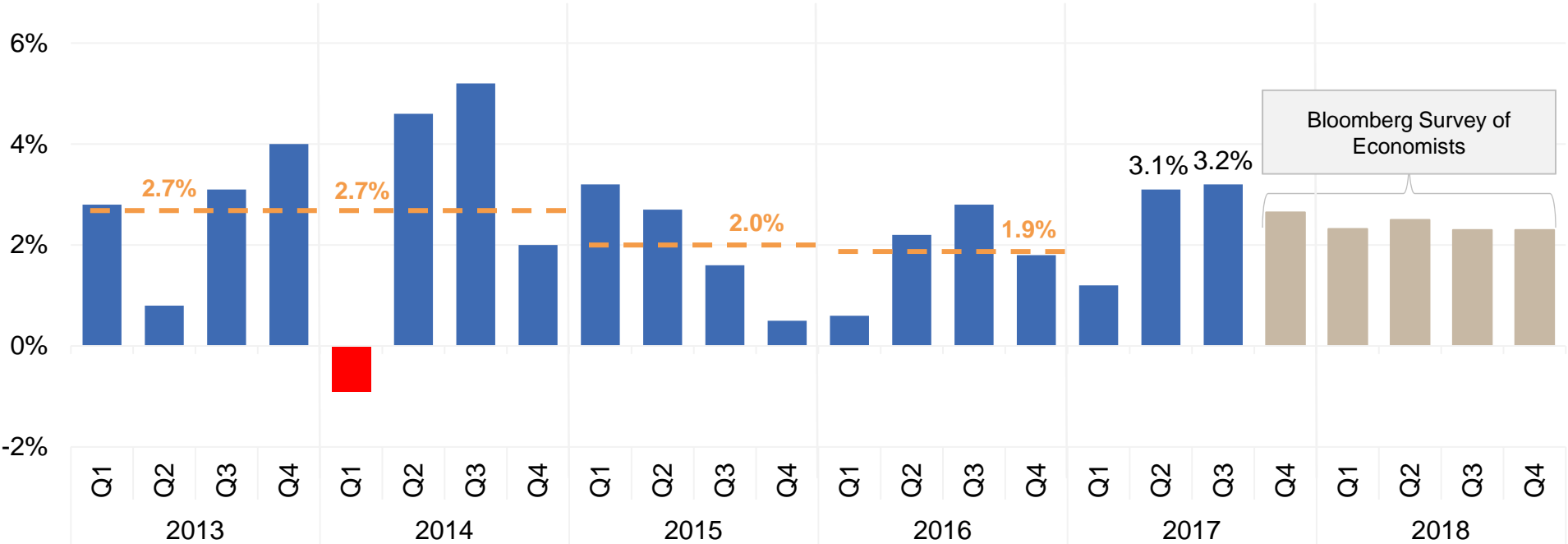
Maturity	12/31/16	12/31/17	Change
3-Mo.	0.50%	1.38%	+ 0.88%
6-Mo.	0.61%	1.53%	+ 0.92%
1-Yr.	0.81%	1.74%	+ 0.93%
2-Yr.	1.19%	1.89%	+ 0.70%
3-Yr.	1.45%	1.97%	+ 0.52%
5-Yr.	1.93%	2.21%	+ 0.28%
10-Yr.	2.44%	2.41%	- 0.03%
20-Yr.	2.76%	2.58%	- 0.18%
30-Yr.	3.07%	2.74%	- 0.33%

Source: Bloomberg, as of 12/31/17.

Economic Growth Remained Strong in Third Quarter

- Gross domestic product (GDP) increased at an annualized rate of 3.2% in the third quarter of 2017, the fastest pace of expansion over two consecutive quarters since 2014. Growth has averaged 2.3% over the last four quarters.
- The acceleration in third quarter GDP reflected positive contributions from personal consumption and business investment boosted primarily by a rise in private inventories and exports. This acceleration was offset by negative contributions from residential housing.

U.S. Real GDP QoQ, SAAR

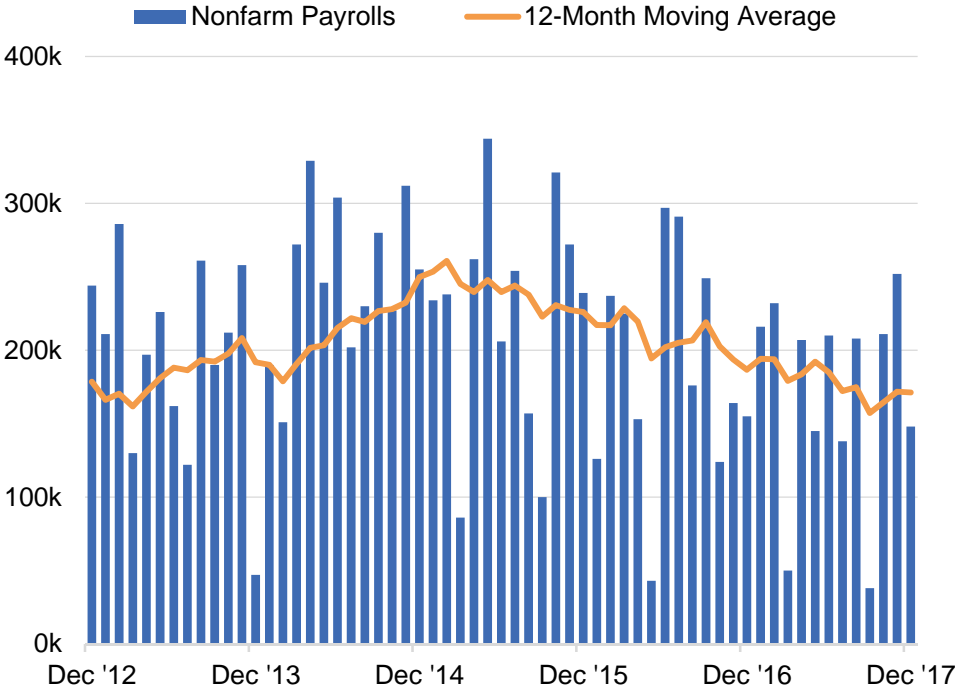


Source: Bloomberg, as of December 2017. SAAR is seasonally adjusted annualized rate. Orange dashes denote four-quarter averages.

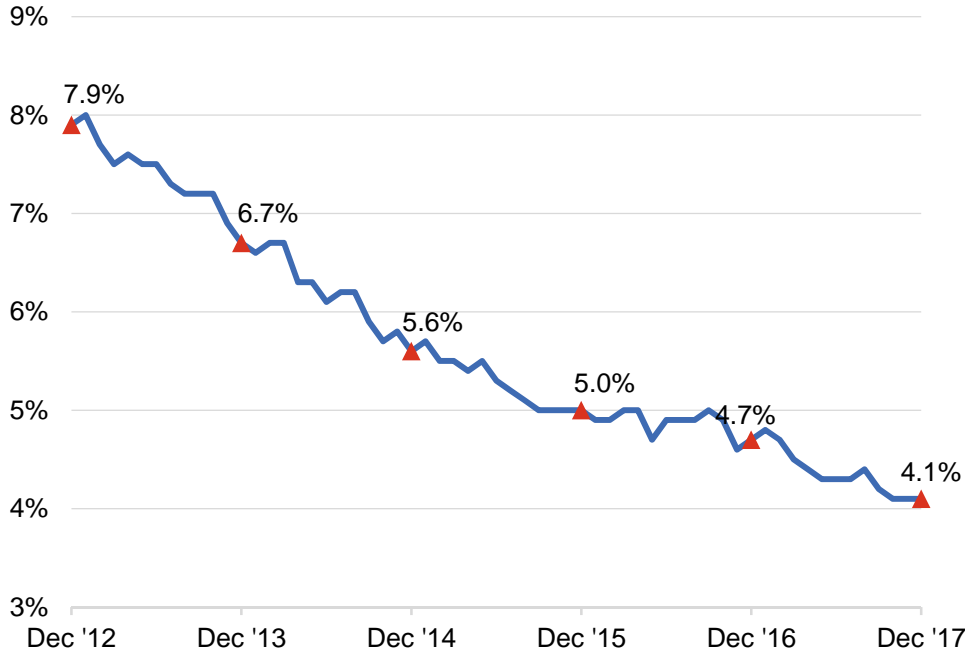
Labor Market Activity Slows Down in December

- The U.S. labor market added 611,000 jobs for the quarter ending December 31, 2017, and an average of 171,000 jobs per month over the past year.
- Headline unemployment rate for the fourth quarter remained at 4.1% for the third consecutive month. The U6 unemployment rate decreased from 8.3% in September to 8.1% in December, while the labor force participation rate fell from 63.0% in September to 62.7% in December.
- Average hourly earnings—an important gauge of wage growth—grew 2.5% over the past 12 months.

Monthly Change in Nonfarm Payrolls



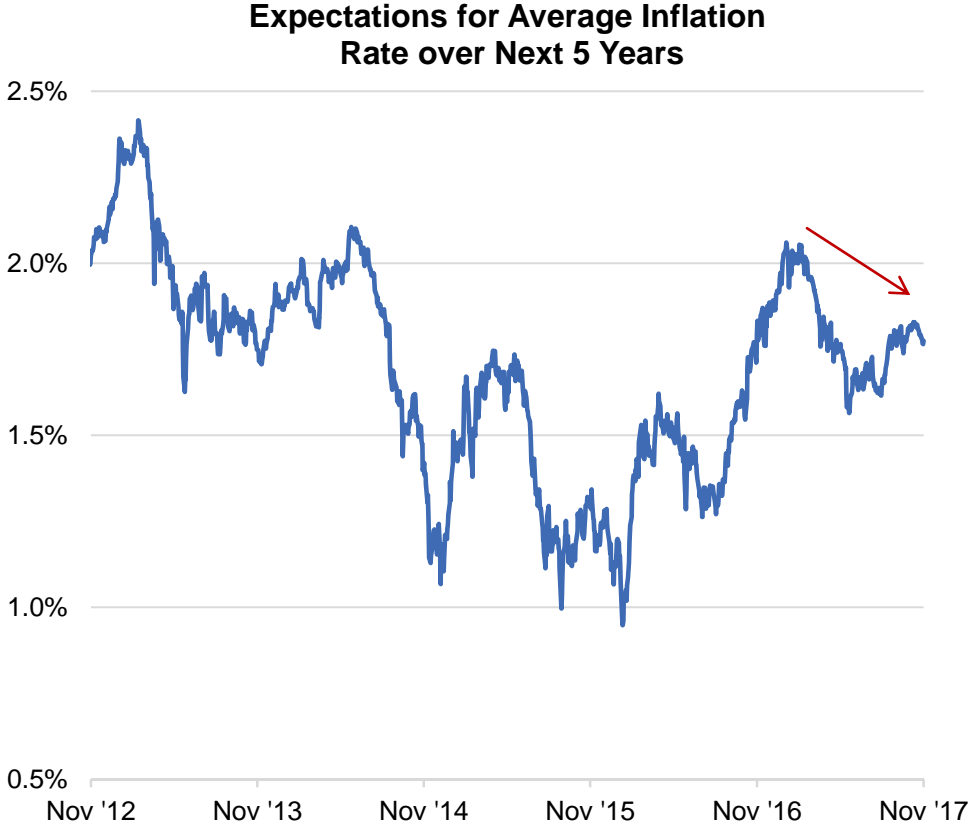
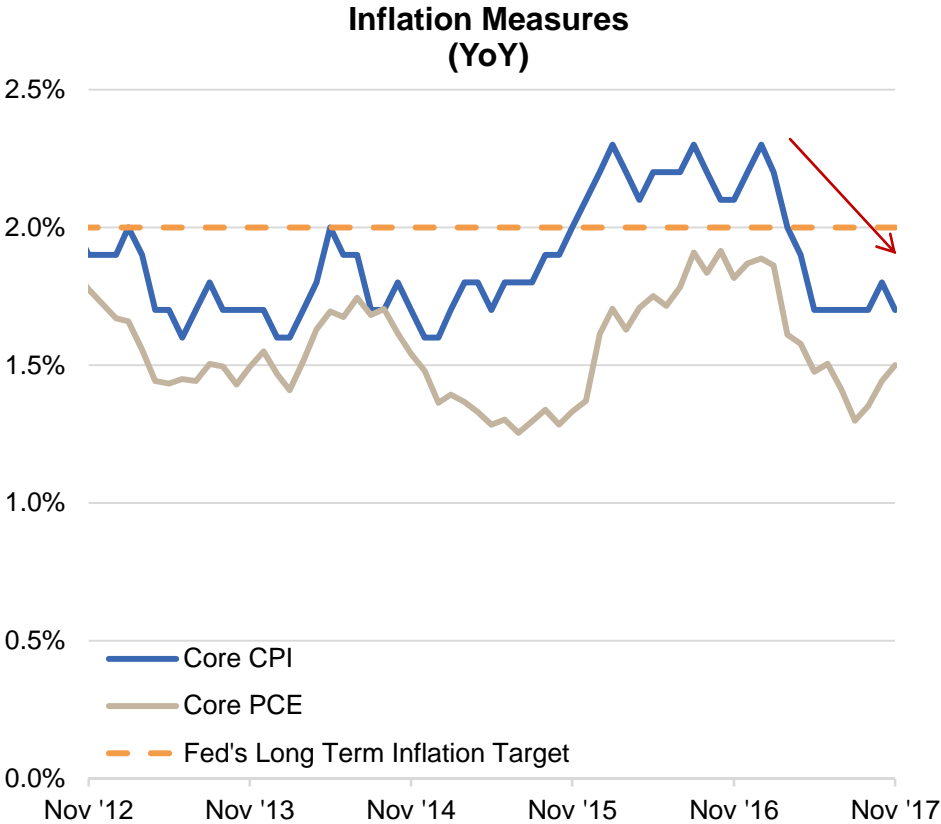
Unemployment Rate



Source: Bloomberg, as of December 2017.

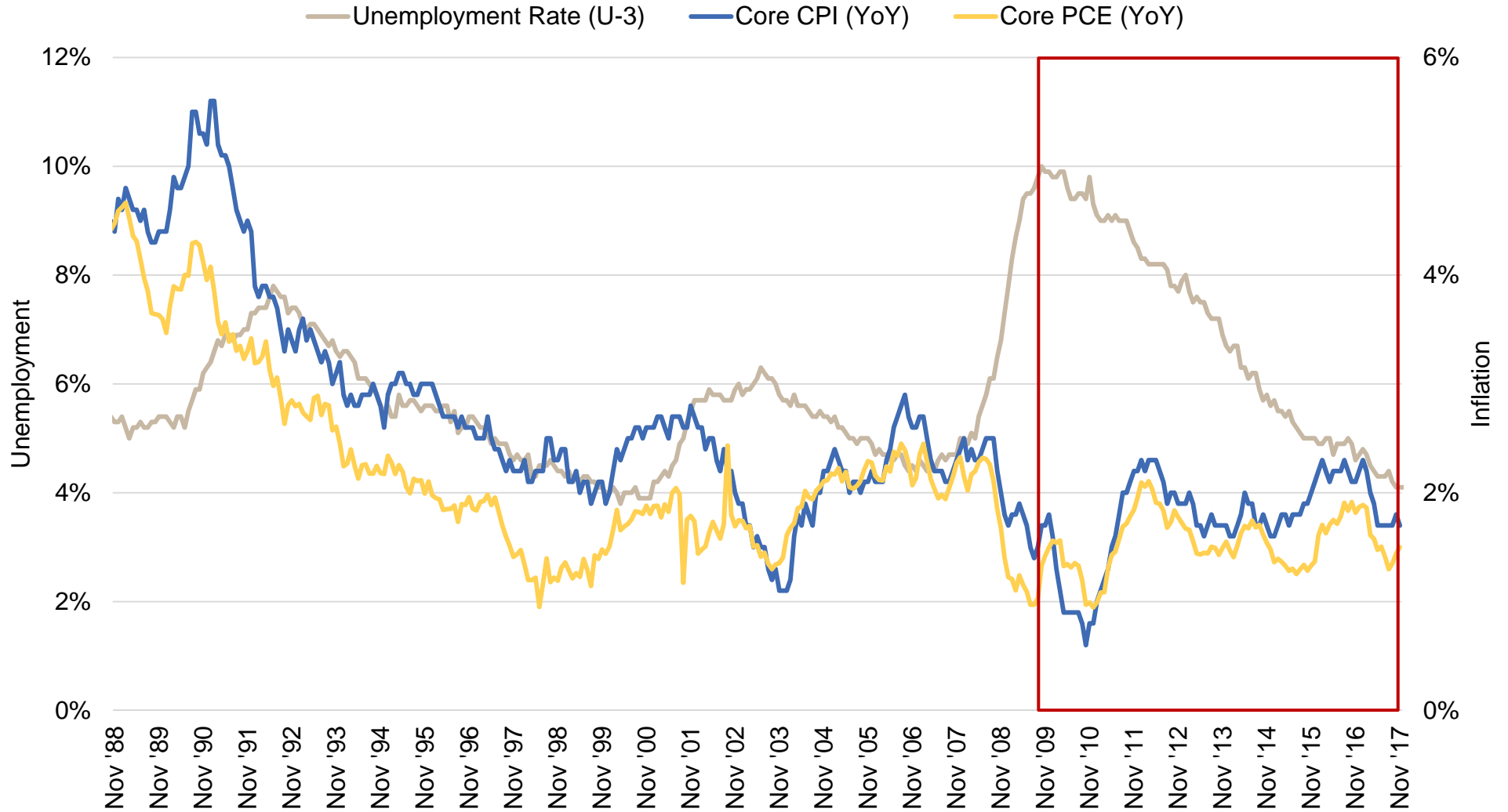
Inflation Remains Muted

- Inflation pressures have declined since the beginning of 2017. The core personal consumption expenditures (PCE) price index, the Fed’s preferred measure of inflation, moved slightly higher to 1.5% year-over-year in November.
- The Fed expects inflation to remain subdued in the near term but to reach their 2% target in the medium term.



Source: Bloomberg, as of November 2017. Inflation expectations based on yield difference between 5-year Treasury note and 5-year Treasury Inflation Protected Securities (TIPS).

Inflation Remains Lackluster Despite a Strong Labor Market



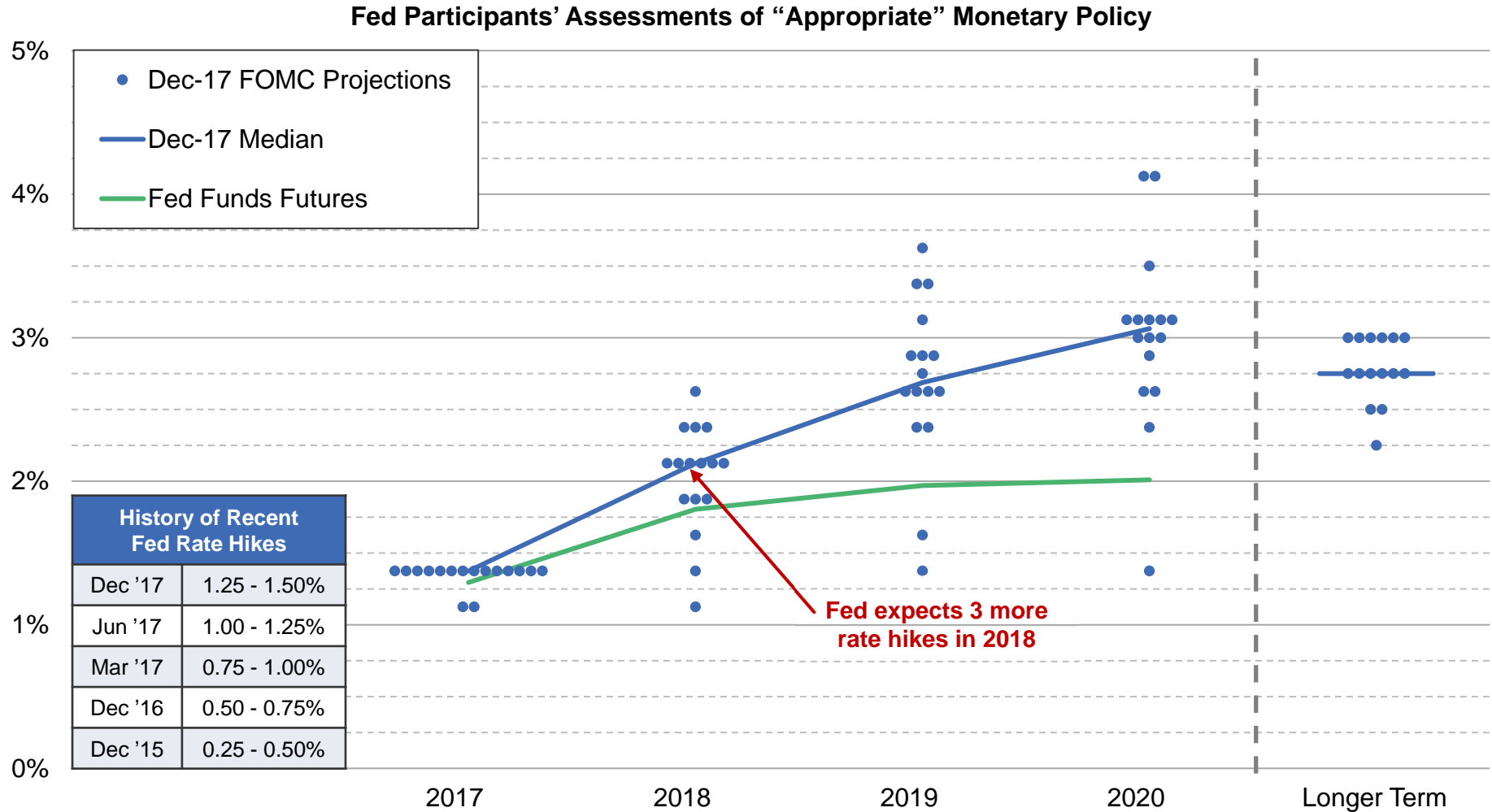
Source: Bloomberg, as of November 2017.

GOP Tax Cuts and Jobs Act

Personal Taxes	Income Tax Brackets	Deductions	Exemptions	Other																							
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #2e5496; color: white;"> <th style="text-align: left;">Tax Rate</th> <th style="text-align: center;">Single</th> <th style="text-align: center;">Married</th> </tr> </thead> <tbody> <tr> <td>10%</td> <td style="text-align: center;">\$9,525</td> <td style="text-align: center;">\$19,050</td> </tr> <tr> <td>12%</td> <td style="text-align: center;">\$38,700</td> <td style="text-align: center;">\$77,400</td> </tr> <tr> <td>22%</td> <td style="text-align: center;">\$82,500</td> <td style="text-align: center;">\$165,000</td> </tr> <tr> <td>24%</td> <td style="text-align: center;">\$157,500</td> <td style="text-align: center;">\$315,000</td> </tr> <tr> <td>32%</td> <td style="text-align: center;">\$200,000</td> <td style="text-align: center;">\$400,000</td> </tr> <tr> <td>35%</td> <td style="text-align: center;">\$500,000</td> <td style="text-align: center;">\$600,000</td> </tr> <tr> <td>37%</td> <td style="text-align: center;">> \$500,000</td> <td style="text-align: center;">> \$600,000</td> </tr> </tbody> </table>	Tax Rate	Single	Married	10%	\$9,525	\$19,050	12%	\$38,700	\$77,400	22%	\$82,500	\$165,000	24%	\$157,500	\$315,000	32%	\$200,000	\$400,000	35%	\$500,000	\$600,000	37%	> \$500,000	> \$600,000	<ul style="list-style-type: none"> • Can deduct up to \$10,000 in a blend of state and local property, income, and sales tax. The state and local deduction was previously unlimited. • Deductible interest on mortgage capped at \$750,000. 	<ul style="list-style-type: none"> • Child tax credit raised from \$1,000 to \$2,000 per child. • The estate tax exemption will be doubled from \$5.5 million to \$11 million.
Tax Rate	Single	Married																									
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37%	> \$500,000	> \$600,000																									
Business Taxes	Marginal Tax Rate	Deductions	Exemptions	Other																							
	<ul style="list-style-type: none"> • Reduced from 35% to 21%. • Marks the largest one-time decline in U.S. history and amounts to almost \$1 trillion of tax cuts over the next decade. 	<ul style="list-style-type: none"> • Pass-through businesses like limited liability corporations allowed to deduct 20% of their earnings. However, this will expire after 2025. 	<ul style="list-style-type: none"> • Businesses will be exempt from paying the corporate alternative minimum tax. 	<ul style="list-style-type: none"> • One-time tax on repatriated cash and profits will be 15.5%, up slightly from the 14% to 14.5% that had been proposed in earlier versions. 																							

Source: The Washington Post, Business Insider.

FOMC "Dot Plot" – December 2017



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed member's judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 12/13/17.

Investment Performance Review

Portfolio Recap

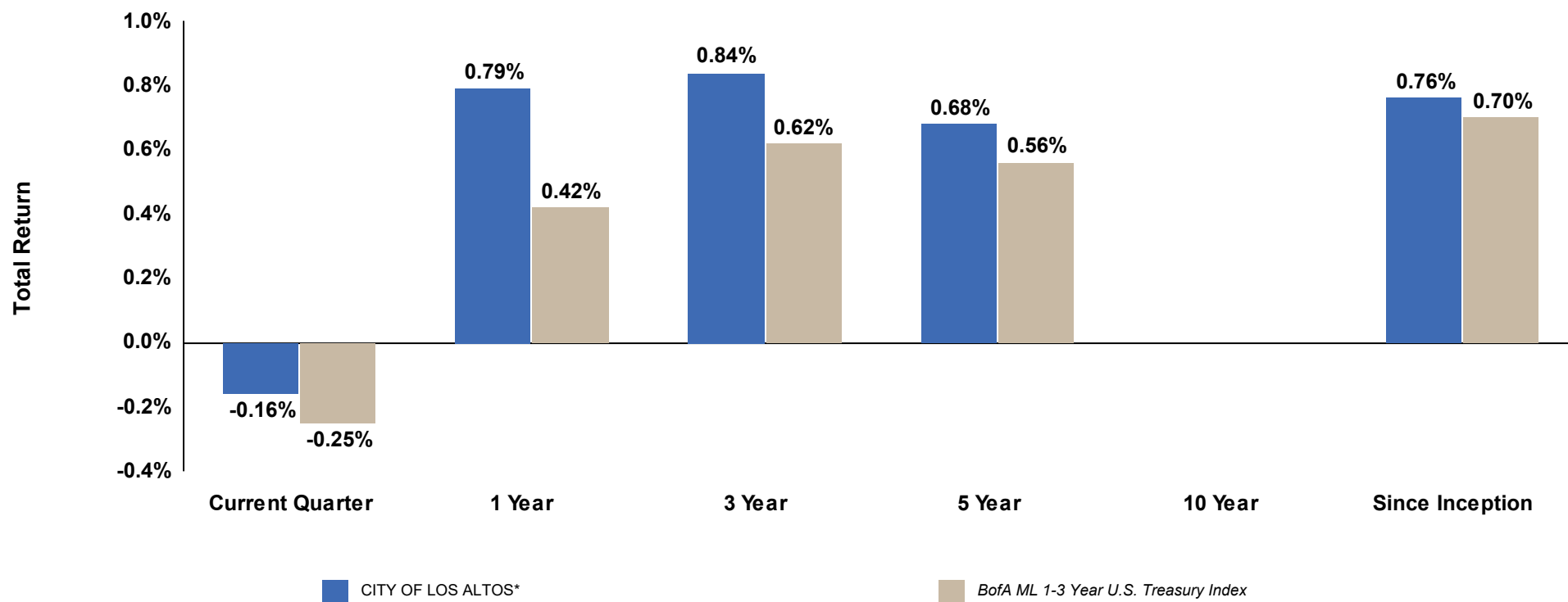
- ◆ In the fourth quarter, economic data was generally favorable, the unemployment rate hovered near a 15-year low, inflation remained in check, and the Fed raised rates for a third time in 2017. At the same time, both consumer and business confidence remained high, and Congress passed large corporate and individual tax cuts.
- ◆ Market reaction to the final tax bill reflected expectations for at least a near-term positive economic impact, causing both interest rates and U.S. equity markets to rise.
- ◆ The post-tax-bill market moves amplified existing trends. During the quarter
 - 2-year Treasury yields rose 40 basis points (0.40%), reflecting the FOMC's December rate hike and expectations for more policy changes going forward,
 - 10-year Treasury yields rose 9 basis points, muted by low inflation prospects and strong demand for yield by global investors,
 - the yield curve flattened to its narrowest levels since 2007, and
 - equity markets capped the first calendar year ever with 12 consecutive months of positive returns.
- ◆ The strength of the U.S. economy, coupled with the December Fed rate hike, drove yields on all but the longest Treasury maturities higher in the fourth quarter. As a result, fixed-income returns were mixed for the quarter, with shorter indexes generating negative returns; however, on a positive note, reinvestment opportunities became more attractive.
- ◆ Higher yields, narrow credit spreads, and a flat yield curve created a challenging investment landscape. As such, we generally employed a duration-neutral portfolio stance relative to the benchmark.

Portfolio Recap

- ◆ Credit instruments and other “spread product” generated outperformance for the quarter relative to government securities. The primary drivers of portfolio performance were asset allocation and diversification.
 - Federal agency yield spreads remained very narrow relative to similar-maturity Treasuries throughout the quarter. We generally favored U.S. Treasuries for government security allocations, except in a few maturity ranges where agency spreads were marginally wider. Minimal incremental income and similar relative price changes resulted in little excess return from the agency sector during the quarter. (Excess return is the return on a sector over and above the return on similar-duration Treasuries.)
 - Supranational spreads continued to narrow through the fourth quarter on limited supply dynamics. The portfolio benefited from incremental performance, in addition to broader diversification within the government sector.
 - Investment-grade corporate yield spreads continued to grind tighter. Due to a combination of incremental yield and spread compression, the corporate sector was one of the best performing fixed income sectors during the quarter.
 - Incremental returns on asset-backed securities (ABS) were also strong, although they were dependent on industry, issuer, and deal tranches.
 - Negotiable CDs continued to provide attractive incremental yield benefits relative to comparable Treasuries while providing an alternative to corporate debt that performed equally well.

Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Current Quarter	Annualized Return				Since Inception (06/30/10)
			1 Year	3 Year	5 Year	10 Year	
CITY OF LOS ALTOS *	1.77	-0.16%	0.79%	0.84%	0.68%	-	0.76%
BofA ML 1-3 Year U.S. Treasury Index	1.80	-0.25%	0.42%	0.62%	0.56%	-	0.70%
Difference		0.09%	0.37%	0.22%	0.12%	-	0.06%



* Portfolio performance is gross of fees unless otherwise indicated.

Portfolio Earnings*Quarter-Ended December 31, 2017*

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (09/30/2017)	\$53,818,641.86	\$53,938,400.45
Net Purchases/Sales	\$127,636.69	\$127,636.69
Change in Value	(\$299,360.62)	(\$21,411.27)
Ending Value (12/31/2017)	\$53,646,917.93	\$54,044,625.87
Interest Earned	\$213,549.98	\$213,549.98
Portfolio Earnings	(\$85,810.64)	\$192,138.71

Sector Allocation and Compliance

- The portfolio is in compliance with the City's Investment Policy and the California Government Code.

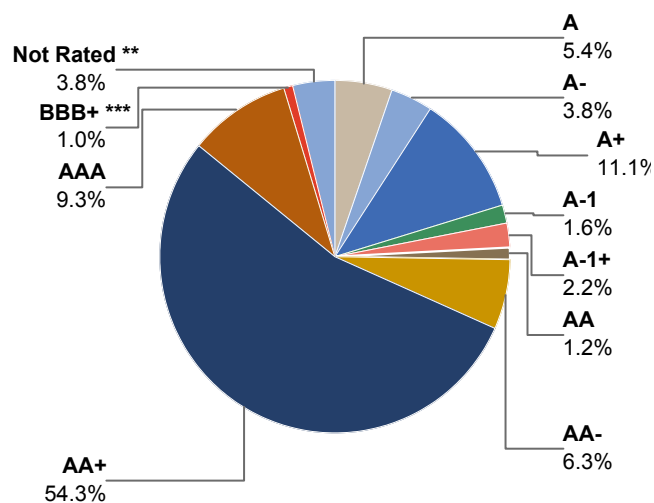
Security Type	Market Value	% of Portfolio	% Change vs. 9/30/17	Permitted by Policy	In Compliance
U.S. Treasury	\$18,252,435	33.9%	-3.5%	100%	✓
Federal Agency	\$10,027,478	18.6%	-1.4%	100%	✓
Supranationals	\$1,898,019	3.5%	+1.0%	10%	✓
Negotiable CDs	\$8,885,479	16.5%	-0.1%	30%	✓
Corporate Notes	\$9,788,312	18.2%	+3.1%	30%	✓
Asset-Backed Securities	\$4,795,196	8.9%	+0.6%	20%	✓
Securities Sub-Total	\$53,646,918	99.7%			
Accrued Interest	\$180,753				
Securities Total	\$53,827,671				
Money Market Fund	\$137,061	0.3%	+0.2%	20%	✓
Total Investments	\$53,964,732	100.0%			

Portfolio Statistics

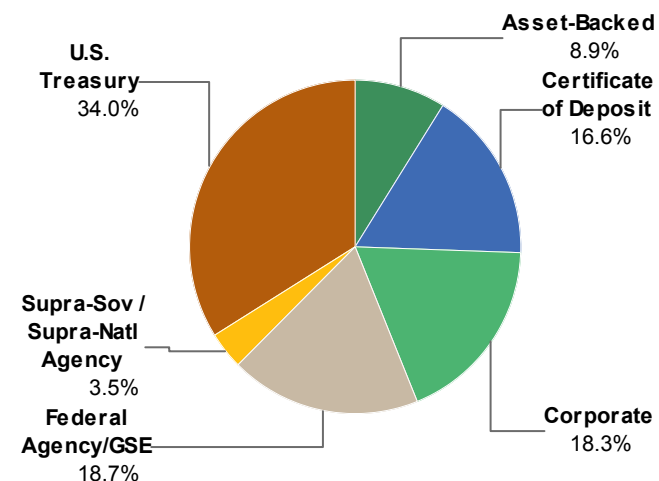
As of December 31, 2017

Par Value:	\$54,023,010
Total Market Value:	\$53,964,732
Security Market Value:	\$53,646,918
Accrued Interest:	\$180,753
Cash:	\$137,061
Amortized Cost:	\$54,044,626
Yield at Market:	1.94%
Yield at Cost:	1.57%
Effective Duration:	1.77 Years
Duration to Worst:	1.84 Years
Average Maturity:	2.00 Years
Average Credit: *	AA

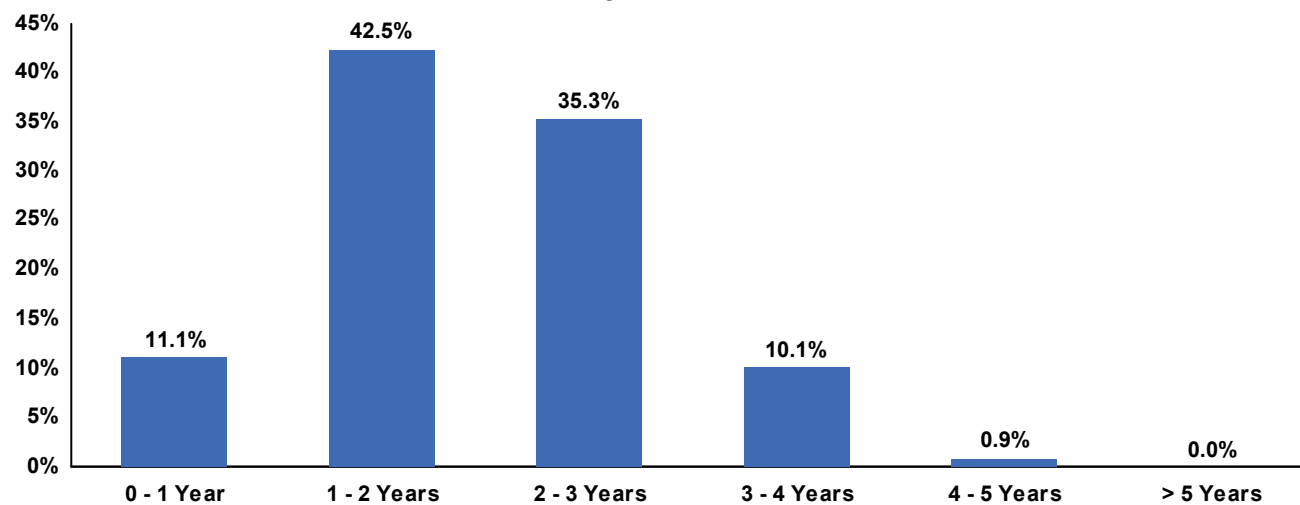
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution



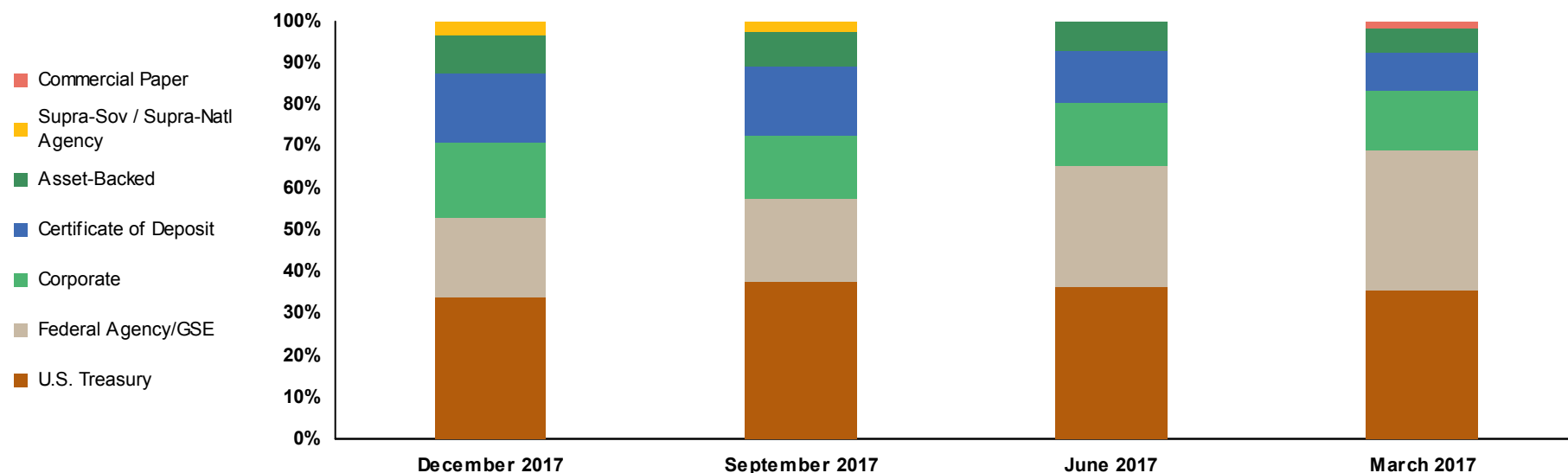
* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

** The "Not Rated" category comprises asset-backed securities rated Aaa by Moody's.

*** The "BBB+" category comprises securities rated A- or better by Moody's and/or Fitch.

Sector Allocation

Sector	December 31, 2017		September 30, 2017		June 30, 2017		March 31, 2017	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	18.3	34.0%	20.2	37.5%	18.5	36.4%	17.3	35.5%
Federal Agency/GSE	10.0	18.7%	10.8	20.0%	14.7	29.0%	16.1	33.2%
Corporate	9.8	18.3%	8.1	15.1%	7.7	15.1%	7.1	14.6%
Certificate of Deposit	8.9	16.6%	8.9	16.6%	6.3	12.5%	4.4	9.0%
Asset-Backed	4.8	8.9%	4.5	8.3%	3.5	7.0%	2.9	6.0%
Supra-Sov / Supra-Natl Agency	1.9	3.5%	1.4	2.5%	0.0	0.0%	0.0	0.0%
Commercial Paper	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.8	1.7%
Total	\$53.6	100.0%	\$53.8	100.0%	\$50.7	100.0%	\$48.5	100.0%

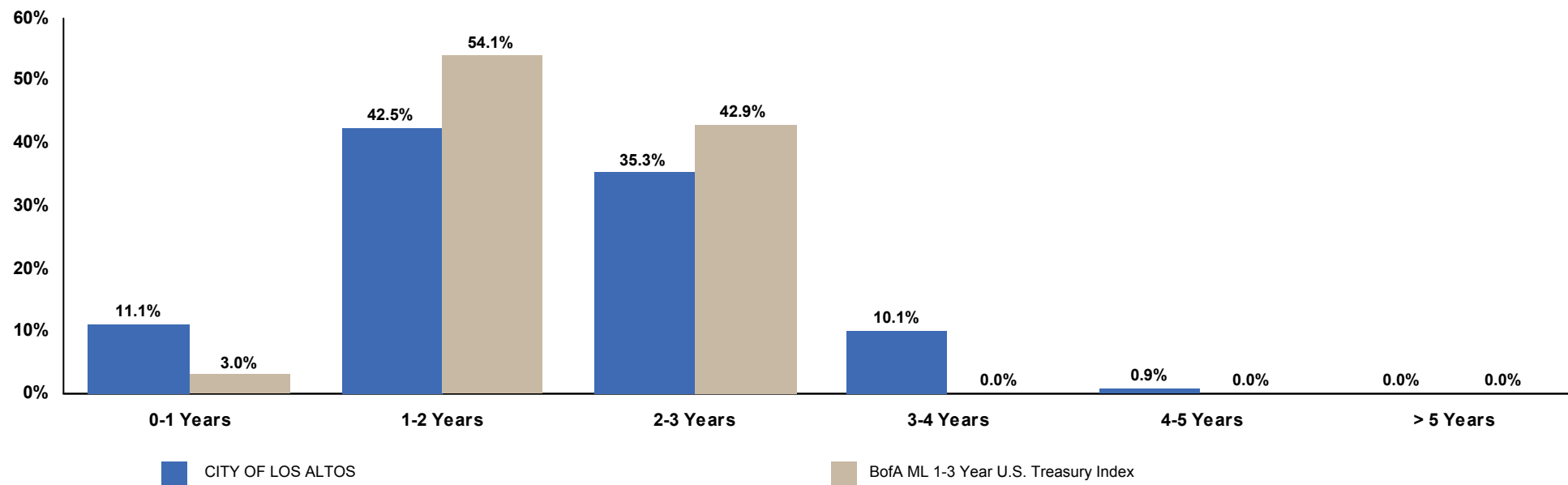


Detail may not add to total due to rounding.

Maturity Distribution

As of December 31, 2017

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
CITY OF LOS ALTOS	1.94%	2.00 yrs	11.1%	42.5%	35.3%	10.1%	0.9%	0.0%
BofA ML 1-3 Year U.S. Treasury Index	1.89%	1.92 yrs	3.0%	54.1%	42.9%	0.0%	0.0%	0.0%



Sector/Issuer Distribution

As of December 31, 2017

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Asset-Backed			
ALLY AUTO RECEIVABLES TRUST	478,139	10.0%	0.9%
AMERICAN EXPRESS CO	189,017	3.9%	0.4%
CARMAX AUTO OWNER TRUST	456,982	9.5%	0.9%
CITIGROUP INC	647,973	13.5%	1.2%
CNH EQUIPMENT TRUST	334,807	7.0%	0.6%
FORD CREDIT AUTO OWNER TRUST	577,285	12.0%	1.1%
HONDA AUTO RECEIVABLES	357,524	7.5%	0.7%
HYUNDAI AUTO RECEIVABLES	432,123	9.0%	0.8%
JOHN DEERE OWNER TRUST	233,486	4.9%	0.4%
NISSAN AUTO RECEIVABLES	521,420	10.9%	1.0%
TOYOTA MOTOR CORP	566,440	11.8%	1.1%
Sector Total	4,795,196	100.0%	8.9%
Certificate of Deposit			
BANK OF MONTREAL	876,082	9.9%	1.6%
BANK OF NOVA SCOTIA	971,471	10.9%	1.8%
CANADIAN IMPERIAL BANK OF COMMERCE	873,153	9.8%	1.6%
MITSUBISHI UFJ FINANCIAL GROUP INC	547,427	6.2%	1.0%
NORDEA BANK AB	875,543	9.9%	1.6%
SKANDINAVISKA ENSKILDA BANKEN AB	1,061,197	11.9%	2.0%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
SUMITOMO MITSUI FINANCIAL GROUP INC	974,333	11.0%	1.8%
SVENSKA HANDELSBANKEN AB	871,132	9.8%	1.6%
SWEDBANK AB	547,029	6.2%	1.0%
TORONTO-DOMINION BANK	324,716	3.7%	0.6%
WESTPAC BANKING CORP	963,398	10.8%	1.8%
Sector Total	8,885,479	100.0%	16.6%

Corporate

AMERICAN EXPRESS CO	445,355	4.5%	0.8%
AMERICAN HONDA FINANCE	552,077	5.6%	1.0%
APPLE INC	546,052	5.6%	1.0%
BANK OF AMERICA CO	548,450	5.6%	1.0%
BB&T CORPORATION	552,121	5.6%	1.0%
CATERPILLAR INC	405,214	4.1%	0.8%
CHEVRON CORPORATION	322,229	3.3%	0.6%
CISCO SYSTEMS INC	197,914	2.0%	0.4%
DEERE & COMPANY	99,291	1.0%	0.2%
EXXON MOBIL CORP	273,577	2.8%	0.5%
GOLDMAN SACHS GROUP INC	549,310	5.6%	1.0%
HOME DEPOT INC	233,131	2.4%	0.4%
HONEYWELL INTERNATIONAL	149,207	1.5%	0.3%
IBM CORP	350,428	3.6%	0.7%
INTEL CORPORATION	248,852	2.5%	0.5%
INTERNATIONAL BUSINESS MACHINES	471,793	4.8%	0.9%
JOHNSON & JOHNSON	114,455	1.2%	0.2%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
JP MORGAN CHASE & CO	499,666	5.1%	0.9%
MICROSOFT CORP	214,364	2.2%	0.4%
PACCAR FINANCIAL CORP	153,820	1.6%	0.3%
PEPSICO INC	233,705	2.4%	0.4%
PFIZER INC	372,041	3.8%	0.7%
THE BANK OF NEW YORK MELLON CORPORATION	474,321	4.8%	0.9%
THE WALT DISNEY CORPORATION	585,568	6.0%	1.1%
TOYOTA MOTOR CORP	473,088	4.8%	0.9%
UNITED PARCEL SERVICE INC	318,308	3.3%	0.6%
VISA INC	149,882	1.5%	0.3%
WAL-MART STORES INC	254,094	2.6%	0.5%
Sector Total	9,788,312	100.0%	18.2%
Federal Agency/GSE			
FANNIE MAE	5,284,480	52.7%	9.9%
FEDERAL HOME LOAN BANKS	2,646,200	26.4%	4.9%
FREDDIE MAC	2,096,798	20.9%	3.9%
Sector Total	10,027,478	100.0%	18.7%
Supra-Sov / Supra-Natl Agency			
INTER-AMERICAN DEVELOPMENT BANK	545,461	28.7%	1.0%
INTL BANK OF RECONSTRUCTION AND DEV	1,352,558	71.3%	2.5%
Sector Total	1,898,019	100.0%	3.5%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
U.S. Treasury			
UNITED STATES TREASURY	18,252,435	100.0%	34.0%
Sector Total	18,252,435	100.0%	34.0%
Portfolio Total	53,646,918	100.0%	100.0%

2018 Investment Outlook and Strategy

- Generally, the economic themes that brought 2017 to a close will carry forward into 2018, including improving growth, stable job production, healthy personal consumption, and strong corporate fundamentals.
- Following three hikes in 2017, the Fed's "dot plot," released after the December FOMC meeting, indicated an expectation for three more hikes in 2018. As of year-end, the market-implied probability of a rate hike at the March FOMC meeting was around 70%.
- The FOMC begins 2018 balancing several factors: persistently low inflation, uncertainty around the pace of economic growth, and the continuation of balance sheet normalization. Additionally, a change in leadership at the Fed—Jerome Powell will replace Janet Yellen as Fed Chair—has the potential to create some uncertainty. As a current Fed governor, Powell is expected to follow closely in Yellen's footsteps.
- Our outlook for each of the major investment-grade fixed income sectors are as follows:
 - Federal agency spreads remain tight; however, the best value relative to U.S. Treasuries is in the 2- to 3-year area of the curve. While callable agency value waned towards the end of 2017, wider spreads in the new year may provide an opportunity to capture incremental yield.
 - Supranational issuance came to a halt at the close of the year, and with it some of their incremental value. However, with the prospect of high seasonal supply in the first quarter, the expectation exists for attractive spreads and purchase opportunities.
 - Corporate yield spreads are expected to remain stable, with incremental income being supportive of continued expected outperformance. As always, careful issuer due diligence will drive selection.
 - The relative value dynamics of the municipal market may shift in the wake of tax reform. Although issuance is likely to fall sharply in 2018, creating a potential supply shortage, the impact of lower individual tax rates could be negative.
 - Given the steepness of the short-term yield curve (under one year), short-term credit instruments like commercial paper and negotiable CDs look particularly attractive. We believe their current yields fully compensate for at least three Fed rate hikes in 2018.

Transactions & Account Holdings

Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
BUY									
9/25/17	10/2/17	200,000	17305EGH2	CCCIT 2017-A9 A9	1.80%	9/20/21	199,985.10	1.80%	
10/2/17	10/10/17	545,000	4581X0CD8	INTER-AMERICAN DEVELOPMENT BANK	2.12%	11/9/20	554,909.35	1.81%	
10/4/17	10/5/17	725,000	912828XE5	US TREASURY NOTES	1.50%	5/31/20	727,215.95	1.58%	
10/11/17	10/20/17	255,000	931142DY6	WAL-MART STORES INC CORP NOTE	1.75%	10/9/19	254,994.90	1.75%	
10/12/17	10/13/17	1,075,000	3130ACM92	FEDERAL HOME LOAN BANK NOTES	1.50%	10/21/19	1,073,097.25	1.59%	
10/17/17	10/25/17	175,000	14314RAH5	CARMX 2017-4 A2A	1.80%	4/15/21	174,987.16	1.79%	
10/23/17	10/30/17	150,000	438516BQ8	HONEYWELL INTERNATIONAL CORP NOTES	1.80%	10/30/19	149,883.00	1.84%	
11/1/17	11/3/17	350,000	38148LAA4	GOLDMAN SACHS GROUP INC CORP NOTES	2.60%	4/23/20	352,891.78	2.28%	
11/1/17	11/3/17	1,000,000	912828M98	US TREASURY NOTES	1.62%	11/30/20	1,002,590.29	1.77%	
11/6/17	11/13/17	330,000	037833DJ6	APPLE INC	2.00%	11/13/20	329,722.80	2.03%	
11/6/17	11/13/17	155,000	69371RN85	PACCAR FINANCIAL CORP NOTES	2.05%	11/13/20	154,986.05	2.05%	
11/8/17	11/10/17	115,000	478160CH5	JOHNSON & JOHNSON CORP NOTE	1.95%	11/10/20	114,876.95	1.99%	
11/9/17	11/14/17	320,000	911312BP0	UNITED PARCEL SERVICE CORPORATE BOND	2.05%	4/1/21	319,494.40	2.10%	
11/13/17	11/16/17	325,000	02665WBZ3	AMERICAN HONDA FINANCE	2.00%	11/13/19	324,818.00	2.03%	
11/14/17	11/21/17	275,000	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	274,950.42	2.02%	
11/16/17	11/17/17	550,000	87019U6D6	SWEDBANK (NEW YORK) CERT DEPOS	2.27%	11/16/20	550,000.00	2.30%	
11/16/17	11/20/17	100,000	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	99,623.33	2.32%	
11/27/17	11/29/17	550,000	06051GGS2	BANK OF AMERICA CORP (CALLABLE)	2.32%	10/1/21	549,934.73	2.46%	
12/1/17	12/5/17	800,000	912828N48	US TREASURY N/B	1.75%	12/31/20	802,198.37	1.91%	
Total BUY		7,995,000					8,011,159.83		
INTEREST									
10/1/17	10/1/17	1,125,000	3130A9AE1	FHLB GLOBAL NOTES	0.87%	10/1/18	4,921.88		
10/2/17	10/2/17	0	MONEY002	MONEY MARKET FUND			38.96		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
10/5/17	10/5/17	975,000	06417GUE6	BANK OF NOVA SCOTIA HOUSTON LT CD	1.91%	4/5/19	9,414.71		
10/15/17	10/15/17	325,000	3137EADZ9	FREDDIE MAC NOTES	1.12%	4/15/19	1,828.13		
10/15/17	10/15/17	230,000	44932GAD7	HYUNDAI ABS 2017-B A3	1.77%	1/15/22	339.25		
10/15/17	10/15/17	350,000	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	478.33		
10/15/17	10/15/17	450,000	3137EADZ9	FREDDIE MAC NOTES	1.12%	4/15/19	2,531.25		
10/15/17	10/15/17	90,000	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	133.50		
10/15/17	10/15/17	250,000	654747AD6	NISSAN ABS 2017-A A3	1.74%	8/15/21	362.50		
10/15/17	10/15/17	380,000	02007HAC5	ALLY ABS 2017-2 A3	1.78%	8/15/21	563.67		
10/15/17	10/15/17	120,000	89238MAD0	TOYOTA ABS 2017-A A3	1.73%	2/15/21	173.00		
10/15/17	10/15/17	376,532	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	483.22		
10/15/17	10/15/17	145,000	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	219.92		
10/15/17	10/15/17	100,000	02007PAC7	ALLY ABS 2017-1 A3	1.70%	6/15/21	141.67		
10/15/17	10/15/17	450,000	89190BAD0	TOYOTA ABS 2017-B A3	1.76%	7/15/21	660.00		
10/15/17	10/15/17	190,000	02582JHG8	AMERICAN EXPRESS ABS 2017-4 A	1.64%	12/15/21	259.67		
10/15/17	10/15/17	275,000	65478GAD2	NISSAN ABS 2017-B A3	1.75%	10/15/21	401.04		
10/15/17	10/15/17	305,000	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	424.46		
10/15/17	10/15/17	205,000	44931PAD8	HYUNDAI ABS 2017-A A3	1.76%	8/15/21	300.67		
10/17/17	10/17/17	325,000	89236TDU6	TOYOTA MOTOR CREDIT CORP (CALLABLE)	1.95%	4/17/20	3,168.75		
10/17/17	10/17/17	150,000	89236TDU6	TOYOTA MOTOR CREDIT CORP (CALLABLE)	1.95%	4/17/20	1,462.50		
10/18/17	10/18/17	140,000	43814PAC4	HAROT 2017-3 A3	1.79%	9/18/21	132.26		
10/19/17	10/19/17	500,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	2,812.50		
10/21/17	10/21/17	220,000	43814TAC6	HONDA ABS 2017-1 A3	1.72%	7/21/21	315.33		
10/30/17	10/30/17	450,000	0258M0EC9	AMERICAN EXPRESS CREDIT (CALLABLE) CORP	1.70%	10/30/19	3,825.00		
10/31/17	10/31/17	1,060,000	912828D23	US TREASURY NOTES	1.62%	4/30/19	8,612.50		
10/31/17	10/31/17	1,075,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	4,031.25		
10/31/17	10/31/17	1,075,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	4,031.25		
10/31/17	10/31/17	1,285,000	912828D23	US TREASURY NOTES	1.62%	4/30/19	10,440.63		
10/31/17	10/31/17	175,000	912828F62	US TREASURY NOTES	1.50%	10/31/19	1,312.50		
10/31/17	10/31/17	2,000,000	912828K58	US TREASURY NOTES	1.37%	4/30/20	13,750.00		
11/1/17	11/1/17	0	MONEY0002	MONEY MARKET FUND			39.17		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
11/2/17	11/2/17	235,000	713448DR6	PEPSICO INC CORP NOTE	1.55%	5/2/19	1,821.25		
11/3/17	11/3/17	975,000	86563YVN0	SUMITOMO MITSUI BANK NY CD	2.05%	5/3/19	10,160.31		
11/9/17	11/9/17	545,000	4581X0CD8	INTER-AMERICAN DEVELOPMENT BANK	2.12%	11/9/20	5,790.63		
11/11/17	11/11/17	250,000	458140AZ3	INTEL CORP NOTES	1.85%	5/11/20	2,312.50		
11/11/17	11/11/17	220,000	037833CS7	APPLE INC BONDS	1.80%	5/11/20	1,980.00		
11/15/17	11/15/17	380,000	02007HAC5	ALLY ABS 2017-2 A3	1.78%	8/15/21	563.67		
11/15/17	11/15/17	100,000	02007PAC7	ALLY ABS 2017-1 A3	1.70%	6/15/21	141.67		
11/15/17	11/15/17	275,000	65478GAD2	NISSAN ABS 2017-B A3	1.75%	10/15/21	401.04		
11/15/17	11/15/17	120,000	89238MAD0	TOYOTA ABS 2017-A A3	1.73%	2/15/21	173.00		
11/15/17	11/15/17	305,000	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	424.46		
11/15/17	11/15/17	450,000	89190BAD0	TOYOTA ABS 2017-B A3	1.76%	7/15/21	660.00		
11/15/17	11/15/17	350,000	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	478.33		
11/15/17	11/15/17	175,000	14314RAH5	CARMX 2017-4 A2A	1.80%	4/15/21	175.00		
11/15/17	11/15/17	205,000	44931PAD8	HYUNDAI ABS 2017-A A3	1.76%	8/15/21	300.67		
11/15/17	11/15/17	90,000	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	133.50		
11/15/17	11/15/17	250,000	654747AD6	NISSAN ABS 2017-A A3	1.74%	8/15/21	362.50		
11/15/17	11/15/17	344,694	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	442.36		
11/15/17	11/15/17	190,000	02582JHG8	AMERICAN EXPRESS ABS 2017-4 A	1.64%	12/15/21	259.67		
11/15/17	11/15/17	230,000	44932GAD7	HYUNDAI ABS 2017-B A3	1.77%	1/15/22	339.25		
11/15/17	11/15/17	145,000	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	219.92		
11/18/17	11/18/17	140,000	43814PAC4	HAROT 2017-3 A3	1.79%	9/18/21	208.83		
11/21/17	11/21/17	220,000	43814TAC6	HONDA ABS 2017-1 A3	1.72%	7/21/21	315.33		
11/27/17	11/27/17	550,000	459058FS7	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.12%	11/27/19	3,096.50		
11/30/17	11/30/17	1,250,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	7,812.50		
11/30/17	11/30/17	875,000	65558LWA6	NORDEA BANK FINLAND NY CD	1.76%	11/30/18	7,871.11		
11/30/17	11/30/17	1,400,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	8,750.00		
11/30/17	11/30/17	565,000	912828M98	US TREASURY NOTES	1.62%	11/30/20	4,590.63		
11/30/17	11/30/17	2,360,000	912828G61	US TREASURY NOTES	1.50%	11/30/19	17,700.00		
11/30/17	11/30/17	725,000	912828XE5	US TREASURY NOTES	1.50%	5/31/20	5,437.50		
11/30/17	11/30/17	875,000	13606A5Z7	CANADIAN IMPERIAL BANK NY CD	1.76%	11/30/18	7,700.00		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
12/1/17	12/1/17	0	MONEY0002	MONEY MARKET FUND			21.02		
12/3/17	12/3/17	375,000	717081DU4	PFIZER INC CORP NOTES	1.45%	6/3/19	2,718.75		
12/5/17	12/5/17	235,000	437076BQ4	HOME DEPOT INC CORP NOTES	1.80%	6/5/20	2,115.00		
12/5/17	12/5/17	500,000	25468PDU7	WALT DISNEY COMPANY CORP NOTES	1.80%	6/5/20	4,475.00		
12/14/17	12/14/17	550,000	3135G0G72	FNMA NOTES	1.12%	12/14/18	3,093.75		
12/14/17	12/14/17	150,000	92826CAB8	VISA INC (CALLABLE) CORP NOTES	2.20%	12/14/20	1,650.00		
12/15/17	12/15/17	380,000	02007HAC5	ALLY ABS 2017-2 A3	1.78%	8/15/21	563.67		
12/15/17	12/15/17	190,000	02582JHG8	AMERICAN EXPRESS ABS 2017-4 A	1.64%	12/15/21	259.67		
12/15/17	12/15/17	275,000	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	368.50		
12/15/17	12/15/17	230,000	44932GAD7	HYUNDAI ABS 2017-B A3	1.77%	1/15/22	339.25		
12/15/17	12/15/17	312,267	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	400.74		
12/15/17	12/15/17	175,000	14314RAH5	CARMX 2017-4 A2A	1.80%	4/15/21	262.50		
12/15/17	12/15/17	90,000	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	133.50		
12/15/17	12/15/17	100,000	02007PAC7	ALLY ABS 2017-1 A3	1.70%	6/15/21	141.67		
12/15/17	12/15/17	205,000	44931PAD8	HYUNDAI ABS 2017-A A3	1.76%	8/15/21	300.67		
12/15/17	12/15/17	120,000	89238MAD0	TOYOTA ABS 2017-A A3	1.73%	2/15/21	173.00		
12/15/17	12/15/17	145,000	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	219.92		
12/15/17	12/15/17	275,000	65478GAD2	NISSAN ABS 2017-B A3	1.75%	10/15/21	401.04		
12/15/17	12/15/17	350,000	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	478.33		
12/15/17	12/15/17	305,000	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	424.46		
12/15/17	12/15/17	450,000	89190BAD0	TOYOTA ABS 2017-B A3	1.76%	7/15/21	660.00		
12/15/17	12/15/17	250,000	654747AD6	NISSAN ABS 2017-A A3	1.74%	8/15/21	362.50		
12/18/17	12/18/17	140,000	43814PAC4	HAROT 2017-3 A3	1.79%	9/18/21	208.83		
12/21/17	12/21/17	775,000	3130A8DB6	FHLB GLOBAL NOTE	1.12%	6/21/19	4,359.38		
12/21/17	12/21/17	220,000	43814TAC6	HONDA ABS 2017-1 A3	1.72%	7/21/21	315.33		
12/22/17	12/22/17	100,000	24422ETS8	JOHN DEERE CAPITAL CORP NOTES	1.95%	6/22/20	975.00		
12/29/17	12/29/17	450,000	05531FAU7	BRANCH BANKING & TRUST (CALLABLE) CORP	2.62%	6/29/20	5,906.25		
12/31/17	12/31/17	800,000	912828N48	US TREASURY N/B	1.75%	12/31/20	7,000.00		
12/31/17	12/31/17	1,025,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	7,687.50		
12/31/17	12/31/17	2,200,000	912828XH8	US TREASURY NOTES	1.62%	6/30/20	17,875.00		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
Total INTEREST		40,963,493					232,121.83		
PAYDOWNS									
10/15/17	10/15/17	31,838	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	31,837.64		0.00
11/15/17	11/15/17	32,428	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	32,427.69		0.00
12/15/17	12/15/17	14,705	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	14,705.36		0.00
12/15/17	12/15/17	29,551	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	29,550.83		0.00
Total PAYDOWNS		108,522					108,521.52		0.00
SELL									
9/26/17	10/2/17	200,000	3130A9AE1	FHLB GLOBAL NOTES	0.87%	10/1/18	199,020.86	1.37%	(918.86)
10/2/17	10/10/17	550,000	3130A9AE1	FHLB GLOBAL NOTES	0.87%	10/1/18	547,628.81	1.34%	(2,316.35)
10/4/17	10/5/17	350,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	350,853.13	1.39%	(771.83)
10/4/17	10/5/17	375,000	3130A9AE1	FHLB GLOBAL NOTES	0.87%	10/1/18	373,206.46	1.37%	(1,708.89)
10/12/17	10/13/17	1,075,000	912828F62	US TREASURY NOTES	1.50%	10/31/19	1,081,559.91	1.53%	(167.31)
10/12/17	10/19/17	200,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	199,394.00	1.43%	(501.09)
10/13/17	10/17/17	90,000	084670BX5	BERKSHIRE HATHAWAY INC GLOBAL NOTES	1.15%	8/15/18	89,961.35	1.44%	(212.40)
10/17/17	10/25/17	75,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	74,753.53	1.44%	(151.98)
10/23/17	10/30/17	150,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	149,576.06	1.46%	(399.21)
11/1/17	11/3/17	150,000	3135G0E58	FNMA BENCHMARK NOTE	1.12%	10/19/18	149,518.13	1.51%	(471.87)
11/1/17	11/3/17	1,075,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	1,067,340.26	1.48%	(2,598.68)
11/1/17	11/3/17	75,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	74,465.60	1.48%	(195.15)
11/6/17	11/13/17	475,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	471,639.66	1.52%	(1,370.67)
11/8/17	11/10/17	115,000	912828M98	US TREASURY NOTES	1.62%	11/30/20	115,302.18	1.78%	(34.60)
11/9/17	11/14/17	320,000	912828M98	US TREASURY NOTES	1.62%	11/30/20	320,947.68	1.78%	(51.28)
11/13/17	11/16/17	275,000	02665WBK6	AMERICAN HONDA FINANCE CORP	1.50%	11/19/18	276,194.88	1.80%	(775.78)

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
11/13/17	11/16/17	50,000	912828F62	US TREASURY NOTES	1.50%	10/31/19	49,853.46	1.69%	(155.41)
11/14/17	11/21/17	240,000	912828G61	US TREASURY NOTES	1.50%	11/30/19	240,717.73	1.71%	(1,249.85)
11/16/17	11/20/17	100,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	99,260.19	1.59%	(344.35)
11/16/17	11/17/17	550,000	89113WWJ1	TORONTO DOMINION BANK NY CERT DEPOS	1.48%	3/14/18	556,287.32	1.44%	(66.40)
11/27/17	11/29/17	125,000	46623EKD0	JP MORGAN CHASE CORP NOTES (CALLABLE)	1.70%	3/1/18	125,495.69	1.77%	17.13
11/27/17	11/29/17	440,000	24422ETA7	JOHN DEERE CAPITAL CORP NOTE	1.75%	8/10/18	442,441.39	1.71%	215.73
12/1/17	12/5/17	425,000	912828T83	US TREASURY NOTES	0.75%	10/31/18	421,904.86	1.65%	(1,627.68)
12/1/17	12/5/17	300,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	298,821.04	1.67%	(1,429.63)
Total SELL		7,780,000					7,776,144.18		-17,286.41



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U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	950,000.00	AA+	Aaa	11/05/15	11/09/15	951,929.69	1.18	1,043.96	950,583.37	945,361.15
US TREASURY NOTES DTD 12/02/2013 1.250% 11/30/2018	912828A34	1,400,000.00	AA+	Aaa	05/03/16	05/06/16	1,414,765.63	0.83	1,538.46	1,405,279.82	1,393,163.80
US TREASURY NOTES DTD 12/31/2013 1.500% 12/31/2018	912828A75	1,025,000.00	AA+	Aaa	12/01/15	12/04/15	1,033,688.48	1.22	42.47	1,027,855.76	1,021,756.90
US TREASURY NOTES DTD 03/31/2014 1.625% 03/31/2019	912828C65	300,000.00	AA+	Aaa	03/02/16	03/04/16	305,203.13	1.05	1,245.54	302,126.61	299,121.00
US TREASURY NOTES DTD 04/02/2012 1.500% 03/31/2019	912828SN1	1,015,000.00	AA+	Aaa	03/02/17	03/02/17	1,018,132.23	1.35	3,889.90	1,016,886.32	1,010,757.30
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	1,060,000.00	AA+	Aaa	11/10/16	11/14/16	1,074,492.19	1.06	2,950.14	1,067,869.49	1,056,728.84
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	1,285,000.00	AA+	Aaa	06/27/16	06/29/16	1,318,329.69	0.70	3,576.35	1,300,692.28	1,281,034.49
US TREASURY NOTES DTD 10/31/2014 1.500% 10/31/2019	912828F62	125,000.00	AA+	Aaa	03/02/17	03/02/17	124,916.99	1.53	321.13	124,943.19	124,140.63
US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019	912828G61	2,360,000.00	AA+	Aaa	12/01/16	12/05/16	2,363,687.50	1.45	3,112.09	2,362,380.11	2,342,944.28
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	1,300,000.00	AA+	Aaa	01/03/17	01/05/17	1,289,640.63	1.52	6,800.27	1,292,928.72	1,282,785.40
US TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	50,000.00	AA+	Aaa	02/01/17	02/03/17	49,697.27	1.58	233.60	49,785.55	49,435.55
US TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	275,000.00	AA+	Aaa	08/31/17	09/01/17	274,989.26	1.38	1,284.79	274,990.71	271,895.53
US TREASURY NOTES DTD 04/30/2015 1.375% 04/30/2020	912828K58	2,000,000.00	AA+	Aaa	07/13/17	07/13/17	1,992,109.38	1.52	4,709.94	1,993,423.28	1,975,234.00
US TREASURY NOTES DTD 06/01/2015 1.500% 05/31/2020	912828XE5	725,000.00	AA+	Aaa	10/04/17	10/05/17	723,442.38	1.58	956.04	723,585.47	717,863.10



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Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	2,200,000.00	AA+	Aaa	06/26/17	06/28/17	2,207,906.25	1.50	98.76	2,206,594.61	2,183,757.40
US TREASURY NOTES DTD 07/31/2015 1.625% 07/31/2020	912828XM7	950,000.00	AA+	Aaa	07/05/17	07/07/17	950,593.75	1.60	6,460.26	950,504.75	942,689.75
US TREASURY NOTES DTD 11/30/2015 1.625% 11/30/2020	912828M98	565,000.00	AA+	Aaa	11/01/17	11/03/17	562,550.19	1.77	807.14	562,678.44	559,327.97
US TREASURY N/B DTD 12/31/2015 1.750% 12/31/2020	912828N48	800,000.00	AA+	Aaa	12/01/17	12/05/17	796,187.50	1.91	38.67	796,280.04	794,437.60
Security Type Sub-Total		18,385,000.00					18,452,262.14	1.35	39,109.51	18,409,388.52	18,252,434.69

Supra-National Agency Bond / Note											
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 10/27/2016 1.125% 11/27/2019	459058FS7	550,000.00	AAA	Aaa	08/28/17	08/30/17	545,308.50	1.51	584.38	546,004.95	540,821.05
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 08/29/2017 1.625% 09/04/2020	459058GA5	275,000.00	AAA	Aaa	08/22/17	08/29/17	274,942.25	1.63	1,514.41	274,948.75	271,543.53
INTL BANK OF RECONSTRUCTION AND DEV NOTE DTD 09/19/2017 1.561% 09/12/2020	45905UP32	550,000.00	AAA	Aaa	09/12/17	09/19/17	548,680.00	1.64	2,432.56	548,802.60	540,193.50
INTER-AMERICAN DEVELOPMENT BANK DTD 11/08/2013 2.125% 11/09/2020	4581X0CD8	545,000.00	AAA	Aaa	10/02/17	10/10/17	550,051.66	1.81	1,672.85	549,694.67	545,460.53
Security Type Sub-Total		1,920,000.00					1,918,982.41	1.65	6,204.20	1,919,450.97	1,898,018.61

Federal Agency Bond / Note											
FNMA NOTES DTD 11/03/2015 1.125% 12/14/2018	3135G0G72	550,000.00	AA+	Aaa	08/16/16	08/16/16	552,816.00	0.90	292.19	551,160.28	546,344.15
FNMA BENCHMARK NOTE DTD 02/23/2016 1.000% 02/26/2019	3135G0J53	950,000.00	AA+	Aaa	02/19/16	02/23/16	947,758.00	1.08	3,298.61	949,132.41	941,019.65



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Federal Agency Bond / Note											
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	325,000.00	AA+	Aaa	05/26/16	05/31/16	325,250.25	1.10	771.88	325,113.67	322,025.28
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	450,000.00	AA+	Aaa	03/29/16	03/29/16	450,301.50	1.10	1,068.75	450,128.62	445,881.15
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	775,000.00	AA+	Aaa	06/02/16	06/03/16	774,674.50	1.14	242.19	774,840.94	766,679.60
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	400,000.00	AA+	Aaa	09/01/16	09/02/16	398,076.00	1.04	1,575.00	398,958.04	393,745.60
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	950,000.00	AA+	Aaa	07/19/16	07/20/16	947,701.00	0.96	3,740.63	948,802.92	935,145.80
FNMA BENCHMARK NOTE DTD 08/02/2016 0.875% 08/02/2019	3135G0N33	1,000,000.00	AA+	Aaa	07/29/16	08/02/16	998,320.00	0.93	3,621.53	999,106.03	983,973.00
FNMA NOTES DTD 09/02/2016 1.000% 08/28/2019	3135G0P49	1,175,000.00	AA+	Aaa	08/31/16	09/02/16	1,173,167.00	1.05	4,014.58	1,173,975.88	1,157,667.58
FHLB GLOBAL NOTES DTD 09/09/2016 1.000% 09/26/2019	3130A9EP2	825,000.00	AA+	Aaa	10/03/16	10/05/16	824,711.25	1.01	2,177.08	824,830.76	812,361.00
FEDERAL HOME LOAN BANK NOTES DTD 10/13/2017 1.500% 10/21/2019	3130ACM92	1,075,000.00	AA+	Aaa	10/12/17	10/13/17	1,073,097.25	1.59	3,493.75	1,073,299.16	1,067,158.95
FNMA NOTES DTD 02/28/2017 1.500% 02/28/2020	3135G0T29	600,000.00	AA+	Aaa	02/24/17	02/28/17	599,616.00	1.52	3,075.00	599,722.03	593,773.80
FNMA NOTES DTD 08/01/2017 1.500% 07/30/2020	3135G0T60	1,075,000.00	AA+	Aaa	08/31/17	09/01/17	1,075,279.50	1.49	6,718.75	1,075,250.88	1,061,702.25
Security Type Sub-Total		10,150,000.00					10,140,768.25	1.16	34,089.94	10,144,321.62	10,027,477.81

Corporate Note											
IBM CORP NOTE DTD 02/12/2014 1.950% 02/12/2019	459200HT1	350,000.00	A+	A1	02/17/16	02/22/16	353,307.50	1.62	2,635.21	351,258.07	350,428.05
PEPSICO INC CORP NOTE DTD 05/02/2017 1.550% 05/02/2019	713448DR6	235,000.00	A+	A1	04/27/17	05/02/17	234,823.75	1.59	596.97	234,881.68	233,705.15



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Corporate Note											
PFIZER INC CORP NOTES DTD 06/03/2016 1.450% 06/03/2019	717081DU4	375,000.00	AA	A1	06/03/16	06/08/16	376,106.25	1.35	422.92	375,532.46	372,040.88
GOLDMAN SACHS GROUP INC CORP NOTE DTD 07/24/2017 1.950% 07/23/2019	38141GWP5	200,000.00	BBB+	A3	07/19/17	07/24/17	199,976.00	1.96	1,700.83	199,981.13	198,833.60
IBM CREDIT CORP NOTE DTD 09/08/2017 1.625% 09/06/2019	44932HAA1	475,000.00	A+	A1	09/05/17	09/08/17	474,639.00	1.66	2,422.83	474,695.03	471,793.28
CISCO SYSTEMS INC CORP NOTES DTD 09/20/2016 1.400% 09/20/2019	17275RBG6	200,000.00	AA-	A1	09/20/16	09/23/16	200,216.00	1.36	785.56	200,125.23	197,913.60
WAL-MART STORES INC CORP NOTE DTD 10/20/2017 1.750% 10/09/2019	931142DY6	255,000.00	AA	Aa2	10/11/17	10/20/17	254,994.90	1.75	880.10	254,995.23	254,094.24
HONEYWELL INTERNATIONAL CORP NOTES DTD 10/30/2017 1.800% 10/30/2019	438516BQ8	150,000.00	A	A2	10/23/17	10/30/17	149,883.00	1.84	457.50	149,892.78	149,207.10
AMERICAN EXPRESS CREDIT (CALLABLE) CORP DTD 10/31/2016 1.700% 10/30/2019	0258M0EC9	450,000.00	A-	A2	01/31/17	02/03/17	446,580.00	1.99	1,296.25	447,699.91	445,355.10
AMERICAN HONDA FINANCE DTD 11/16/2017 2.000% 11/13/2019	02665WBZ3	325,000.00	A+	A2	11/13/17	11/16/17	324,818.00	2.03	812.50	324,829.20	323,887.20
JPMORGAN CHASE & CO (CALLABLE) DTD 01/23/2015 2.250% 01/23/2020	46625HKA7	500,000.00	A-	A3	06/15/17	06/20/17	501,885.00	2.10	4,937.50	501,498.59	499,665.50
MICROSOFT CORP DTD 02/06/2017 1.850% 02/06/2020	594918BV5	215,000.00	AAA	Aaa	01/30/17	02/06/17	214,855.95	1.87	1,602.05	214,898.47	214,364.25
BNY MELLON (CALLABLE) CORP NOTE DTD 02/24/2015 2.150% 02/24/2020	06406HCZ0	475,000.00	A	A1	03/29/17	03/30/17	476,695.75	2.02	3,602.74	476,255.55	474,321.23
CHEVRON CORP NOTES DTD 03/03/2017 1.991% 03/03/2020	166764BP4	325,000.00	AA-	Aa2	02/28/17	03/03/17	325,000.00	1.99	2,120.97	325,000.00	322,229.38
WALT DISNEY COMPANY CORP NOTES DTD 03/06/2017 1.950% 03/04/2020	25468PDP8	90,000.00	A+	A2	03/01/17	03/06/17	89,976.60	1.96	570.38	89,982.84	89,707.50
EXXON MOBIL (CALLABLE) CORP NOTE DTD 03/06/2015 1.912% 03/06/2020	30231GAG7	275,000.00	AA+	Aaa	08/14/17	08/15/17	276,394.25	1.71	1,679.64	276,186.14	273,577.43



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Corporate Note											
TOYOTA MOTOR CREDIT CORP (CALLABLE) DTD 04/17/2017 1.950% 04/17/2020	89236TDU6	150,000.00	AA-	Aa3	04/12/17	04/17/17	150,045.00	1.94	601.25	150,034.64	149,396.10
TOYOTA MOTOR CREDIT CORP (CALLABLE) DTD 04/17/2017 1.950% 04/17/2020	89236TDU6	325,000.00	AA-	Aa3	04/11/17	04/17/17	324,850.50	1.97	1,302.71	324,884.90	323,691.55
GOLDMAN SACHS GROUP INC CORP NOTES DTD 01/23/2015 2.600% 04/23/2020	38148LAA4	350,000.00	BBB+	A3	11/01/17	11/03/17	352,639.00	2.28	1,718.89	352,471.28	350,476.70
APPLE INC BONDS DTD 05/11/2017 1.800% 05/11/2020	037833CS7	220,000.00	AA+	Aa1	05/04/17	05/11/17	219,775.60	1.84	550.00	219,822.40	218,136.82
INTEL CORP NOTES DTD 05/11/2017 1.850% 05/11/2020	458140AZ3	250,000.00	A+	A1	05/08/17	05/11/17	249,905.00	1.86	642.36	249,924.81	248,852.00
HOME DEPOT INC CORP NOTES DTD 06/05/2017 1.800% 06/05/2020	437076BQ4	235,000.00	A	A2	05/24/17	06/05/17	234,863.70	1.82	305.50	234,889.14	233,131.28
WALT DISNEY COMPANY CORP NOTES DTD 06/06/2017 1.800% 06/05/2020	25468PDU7	500,000.00	A+	A2	06/01/17	06/06/17	499,420.00	1.84	650.00	499,527.72	495,860.00
JOHN DEERE CAPITAL CORP NOTES DTD 06/22/2017 1.950% 06/22/2020	24422ETS8	100,000.00	A	A2	06/19/17	06/22/17	99,939.00	1.97	48.75	99,949.42	99,290.80
BRANCH BANKING & TRUST (CALLABLE) CORP DTD 06/29/2015 2.625% 06/29/2020	05531FAU7	450,000.00	A-	A2	03/17/17	03/22/17	454,144.50	2.33	65.63	453,171.82	453,067.20
AMERICAN HONDA FINANCE CORP NOTES DTD 07/20/2017 1.950% 07/20/2020	02665WBT7	230,000.00	A+	A2	07/17/17	07/20/17	229,767.70	1.98	2,005.79	229,801.48	228,189.67
CATERPILLAR FINL SERVICE NOTE DTD 09/07/2017 1.850% 09/04/2020	14913O2A6	410,000.00	A	A3	09/05/17	09/07/17	409,655.60	1.88	2,401.92	409,691.05	405,213.66
JOHNSON & JOHNSON CORP NOTE DTD 11/10/2017 1.950% 11/10/2020	478160CH5	115,000.00	AAA	Aaa	11/08/17	11/10/17	114,876.95	1.99	317.69	114,882.62	114,455.48
PACCAR FINANCIAL CORP NOTES DTD 11/13/2017 2.050% 11/13/2020	69371RN85	155,000.00	A+	A1	11/06/17	11/13/17	154,986.05	2.05	423.67	154,986.65	153,819.83
APPLE INC DTD 11/13/2017 2.000% 11/13/2020	037833DJ6	330,000.00	AA+	Aa1	11/06/17	11/13/17	329,722.80	2.03	880.00	329,734.81	327,914.73



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Corporate Note											
VISA INC (CALLABLE) CORP NOTES DTD 12/14/2015 2.200% 12/14/2020	92826CAB8	150,000.00	A+	A1	08/25/17	08/30/17	151,650.00	1.85	155.83	151,483.18	149,881.80
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	100,000.00	A-	A2	11/16/17	11/20/17	99,480.00	2.32	388.19	99,497.44	99,054.00
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	320,000.00	A+	A1	11/09/17	11/14/17	319,494.40	2.10	856.44	319,512.37	318,307.52
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	550,000.00	A-	A3	11/27/17	11/29/17	547,409.50	2.46	3,663.37	547,469.92	548,449.55

Security Type Sub-Total **9,835,000.00** **9,842,777.25** **1.94** **43,501.94** **9,839,447.96** **9,788,312.18**

Certificate of Deposit											
TORONTO DOMINION BANK NY CERT DEPOS DTD 02/09/2017 1.480% 03/14/2018	89113WWJ1	325,000.00	A-1+	P-1	02/08/17	02/09/17	325,000.00	1.50	4,355.72	325,000.00	324,715.65
CANADIAN IMPERIAL BANK NY CD DTD 12/05/2016 1.760% 11/30/2018	13606A5Z7	875,000.00	A-1	P-1	12/01/16	12/05/16	874,317.50	1.78	1,326.11	874,686.52	873,152.88
NORDEA BANK FINLAND NY CD DTD 12/05/2016 1.760% 11/30/2018	65558LWA6	875,000.00	A-1+	P-1	12/01/16	12/05/16	875,000.00	1.74	1,368.89	875,000.00	875,542.50
SVENSKA HANDELSBANKEN NY LT CD DTD 01/12/2017 1.890% 01/10/2019	86958JHB8	875,000.00	AA-	Aa2	01/10/17	01/12/17	875,000.00	1.91	8,039.06	875,000.00	871,131.63
BANK OF MONTREAL CHICAGO CERT DEPOS DTD 02/09/2017 1.880% 02/07/2019	06427KRC3	875,000.00	A+	A1	02/08/17	02/09/17	875,000.00	1.90	6,580.00	875,000.00	876,082.38
BANK OF NOVA SCOTIA HOUSTON LT CD DTD 04/06/2017 1.910% 04/05/2019	06417GUE6	975,000.00	A+	A1	04/05/17	04/06/17	975,000.00	1.91	4,552.17	975,000.00	971,470.50
SUMITOMO MITSUI BANK NY CD DTD 05/04/2017 2.050% 05/03/2019	86563YVNO	975,000.00	A	A1	05/03/17	05/04/17	975,000.00	2.05	3,275.73	975,000.00	974,333.10



Managed Account Detail of Securities Held

For the Month Ending **December 31, 2017**

CITY OF LOS ALTOS

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Certificate of Deposit											
SKANDINAV ENSKILDA BANKEN NY CD DTD 08/04/2017 1.840% 08/02/2019	83050FXT3	1,075,000.00	A+	Aa3	08/03/17	08/04/17	1,074,580.75	1.85	8,241.67	1,074,667.14	1,061,196.53
BANK TOKYO MITSUBISHI UFJ LTD LT CD DTD 09/27/2017 2.070% 09/25/2019	06539RGM3	550,000.00	A+	A1	09/25/17	09/27/17	550,000.00	2.07	3,036.00	550,000.00	547,426.55
WESTPAC BANKING CORP NY CD DTD 08/07/2017 2.050% 08/03/2020	96121T4A3	965,000.00	AA-	Aa3	08/03/17	08/07/17	965,000.00	2.05	7,913.00	965,000.00	963,398.10
SWEDBANK (NEW YORK) CERT DEPOS DTD 11/17/2017 2.270% 11/16/2020	87019U6D6	550,000.00	AA-	Aa3	11/16/17	11/17/17	550,000.00	2.30	1,560.63	550,000.00	547,028.90

Security Type Sub-Total		8,915,000.00					8,913,898.25	1.92	50,248.98	8,914,353.66	8,885,478.72
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Asset-Backed Security / Collateralized Mortgage Obligation											
CARMAX ABS 2017-1 A2 DTD 01/31/2017 1.540% 02/15/2020	14314JAB6	282,715.70	NR	Aaa	01/25/17	01/31/17	282,715.61	1.60	193.50	282,715.68	282,342.57
CNH 2017-A A2 DTD 03/22/2017 1.640% 07/15/2020	12636WAB2	335,294.64	AAA	NR	03/15/17	03/22/17	335,281.76	1.80	244.39	335,284.22	334,806.95
CITIBANK ABS 2017-A2 A2 DTD 01/26/2017 1.740% 01/17/2021	17305EGA7	450,000.00	AAA	Aaa	01/19/17	01/26/17	449,913.83	1.75	3,567.00	450,000.00	448,996.10
TOYOTA ABS 2017-A A3 DTD 03/15/2017 1.730% 02/15/2021	89238MAD0	120,000.00	AAA	Aaa	03/07/17	03/15/17	119,985.88	1.74	92.27	119,986.19	119,405.94
JOHN DEERE ABS 2017-A A3 DTD 03/02/2017 1.780% 04/15/2021	47787XAC1	90,000.00	NR	Aaa	02/22/17	03/02/17	89,987.18	1.79	71.20	89,987.18	89,567.98
CARMX 2017-4 A2A DTD 10/25/2017 1.800% 04/15/2021	14314RAH5	175,000.00	AAA	NR	10/17/17	10/25/17	174,987.16	1.79	140.00	174,987.76	174,639.73
ALLY ABS 2017-1 A3 DTD 01/31/2017 1.700% 06/15/2021	02007PAC7	100,000.00	NR	Aaa	01/24/17	01/31/17	99,991.26	1.70	75.56	99,993.19	99,533.92
FORD ABS 2017-A A3 DTD 01/25/2017 1.670% 06/15/2021	34531EAD8	305,000.00	NR	Aaa	01/18/17	01/25/17	304,998.87	1.67	226.38	304,999.20	303,091.68
TOYOTA ABS 2017-B A3 DTD 05/17/2017 1.760% 07/15/2021	89190BAD0	450,000.00	AAA	Aaa	05/09/17	05/17/17	449,965.49	1.76	352.00	449,965.49	447,033.83



Managed Account Detail of Securities Held

For the Month Ending **December 31, 2017**

CITY OF LOS ALTOS

Security Type/Description	Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Asset-Backed Security / Collateralized Mortgage Obligation												
HONDA ABS 2017-1 A3 DTD 03/28/2017 1.720% 07/21/2021		43814TAC6	220,000.00	NR	Aaa	03/21/17	03/28/17	219,986.91	1.72	105.11	219,986.91	218,573.12
HYUNDAI ABS 2017-A A3 DTD 03/29/2017 1.760% 08/15/2021		44931PAD8	205,000.00	AAA	NR	03/22/17	03/29/17	204,983.42	1.76	160.36	204,983.42	203,921.43
NISSAN ABS 2017-A A3 DTD 03/28/2017 1.740% 08/15/2021		65474AD6	250,000.00	NR	Aaa	03/21/17	03/28/17	249,973.53	1.74	193.33	249,974.19	248,479.20
ALLY ABS 2017-2 A3 DTD 03/29/2017 1.780% 08/15/2021		02007HAC5	380,000.00	NR	Aaa	03/21/17	03/29/17	379,955.20	1.79	300.62	379,963.32	378,605.55
HAROT 2017-3 A3 DTD 09/29/2017 1.790% 09/18/2021		43814PAC4	140,000.00	AAA	NR	09/25/17	09/29/17	139,984.84	1.94	90.49	139,985.71	138,950.57
CCCT 2017-A9 A9 DTD 10/02/2017 1.800% 09/20/2021		17305EGH2	200,000.00	AAA	NR	09/25/17	10/02/17	199,985.10	1.80	890.00	199,986.10	198,976.92
JOHN DEERE ABS 2017-B A3 DTD 07/15/2017 1.820% 10/15/2021		47788BAD6	145,000.00	NR	Aaa	07/11/17	07/18/17	144,989.39	1.82	117.29	144,990.56	143,918.00
NISSAN ABS 2017-B A3 DTD 08/23/2017 1.750% 10/15/2021		65478GAD2	275,000.00	NR	Aaa	08/16/17	08/23/17	274,984.63	1.75	213.89	274,985.89	272,940.36
AMERICAN EXPRESS ABS 2017-4 A DTD 05/30/2017 1.640% 12/15/2021		02582JHG8	190,000.00	AAA	NR	05/22/17	05/30/17	189,969.56	1.65	138.49	189,973.18	189,017.30
HYUNDAI ABS 2017-B A3 DTD 08/16/2017 1.770% 01/15/2022		44932GAD7	230,000.00	AAA	Aaa	08/09/17	08/16/17	229,960.14	1.78	180.93	229,963.41	228,201.12
FORDO 2017-C A3 DTD 11/21/2017 2.010% 03/15/2022		34532AAD5	275,000.00	AAA	NR	11/14/17	11/21/17	274,950.42	2.02	245.67	274,951.54	274,193.65
Security Type Sub-Total			4,818,010.34					4,817,550.18	1.77	7,598.48	4,817,663.14	4,795,195.92
Managed Account Sub-Total			54,023,010.34					54,086,238.48	1.57	180,753.05	54,044,625.87	53,646,917.93



Managed Account Detail of Securities Held

For the Month Ending **December 31, 2017**

CITY OF LOS ALTOS

Securities Sub-Total	\$54,023,010.34	\$54,086,238.48	1.57%	\$180,753.05	\$54,044,625.87	\$53,646,917.93
Accrued Interest						\$180,753.05
Total Investments						\$53,827,670.98

IMPORTANT DISCLOSURES

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.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

GLOSSARY

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount and expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

GLOSSARY

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.