

Hampton Roads Sanitation District – Operating Funds

Investment Report – Quarter Ended March 31, 2017

Portfolio Summary

	Yield as of	Market Value	
	March 31, 2017	March 31, 2017	December 31, 2016
Operating Liquidity Strategy	0.48%	\$ 38,962,428	\$ 40,505,746
Total Return Strategy	1.18%	\$ 155,698,603	\$ 155,186,055
Capital Investment Strategy	0.89%	\$ 44,380,277	\$ 58,017,266
Total Portfolio		\$ 239,041,309	\$ 253,709,067

Investment Recap and Strategies

- The **Operating Liquidity Strategy** is managed to provide liquidity for day-to-day cash needs and unforeseen events. Currently, the Operating Liquidity Strategy funds are held in an account meeting the requirements of the Security for Public Deposits Act (SPDA) and a local government investment pool (LGIP).
- The **Total Return Strategy** consists of operating funds that will not be a major source of day-to-day disbursement requirements and operational needs. The strategy includes a portfolio invested in longer-term securities in order to generate a higher investment rate of return. The strategy also includes funds designated as a reserve that are invested in an LGIP.
- The **Capital Investment Strategy** is managed to provide liquidity for capital projects. Currently, the Capital Investment Strategy funds are held in an LGIP.

Portfolio Performance Summary

- Performance for the Operating Liquidity Strategy and Capital Investment Strategy is measured by comparing the average current yield of the portfolios to the average yield of a short term index. During the quarter, the Operating Liquidity Strategy had an average yield of 0.64% and the Capital Investment Strategy had an average yield of 0.77%, compared to the Merrill Lynch 3-month Treasury Bill's average yield of 0.59%. The one-year trailing return for the Operating Liquidity Strategy and the Capital Investment Strategy, were 0.39%, and 0.53%, respectively, compared to the benchmark's return of 0.39%.
- Performance for the Total Return Strategy is measured on a total return basis, which captures interest income, realized gains/losses, and unrealized gains/losses. This performance calculation methodology is most appropriate for investment portfolios that have longer-term investment horizons. During the quarter, the Total Return Strategy Portfolio generated a total return of 0.33% (1.33% annualized), outperforming the Merrill Lynch 1 - 3 Year U.S. Treasury Index's return of 0.26% (1.06% annualized).

Portfolio Summary *(continued)*

Total Return Strategy Managed Portfolio

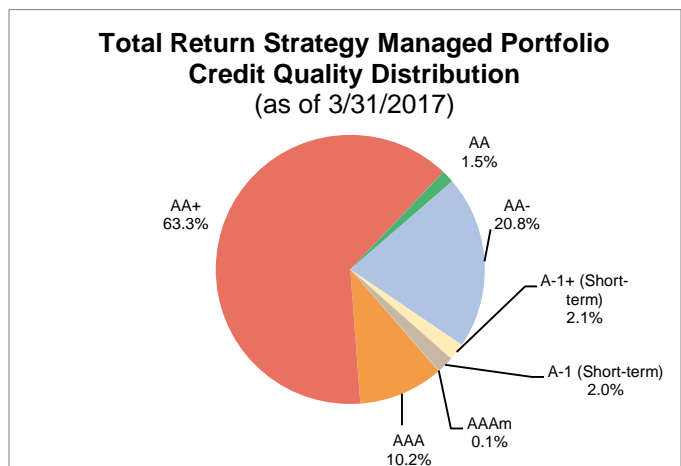
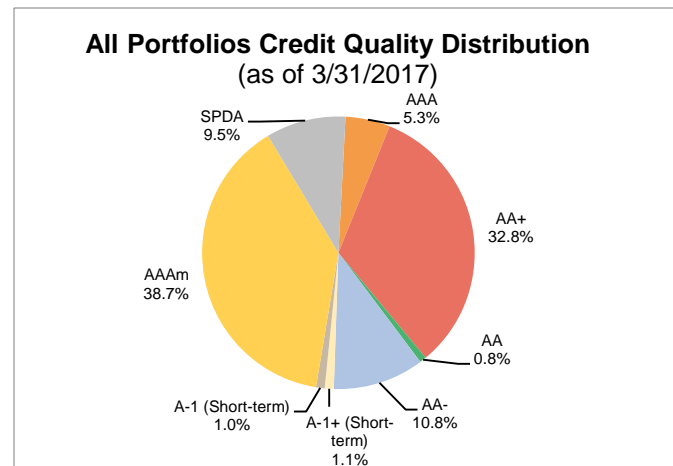
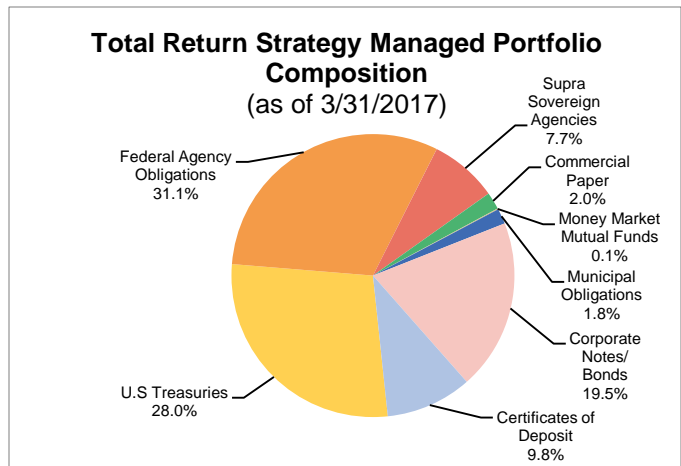
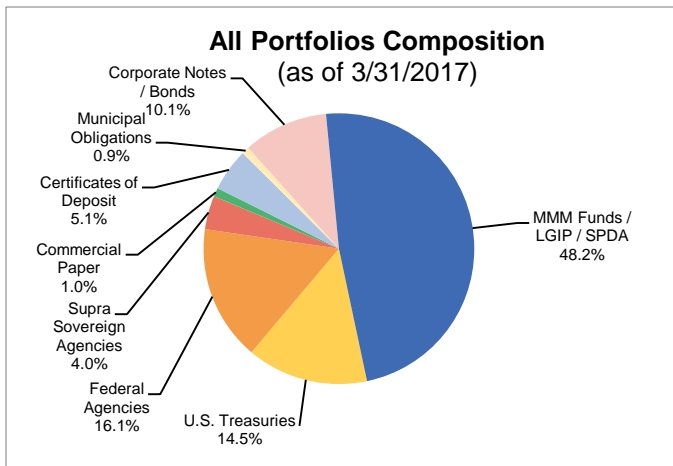
- The Total Return Strategy Managed Portfolio (the “Portfolio”) is well diversified among U.S. Treasury securities, federal agency securities, supra sovereign agencies, certificates of deposit, municipal bonds, corporate notes, commercial paper, and high quality money market mutual funds. The Portfolio’s average credit quality is AA+.
- In the first quarter of 2017, the Total Return Strategy Managed Portfolio, which does not include the reserve fund, generated a total return of 0.36% (1.47% annualized), outperforming the Merrill Lynch 1 - 3 Year U.S. Treasury Index’s return of 0.26% (1.06% annualized). The one-year trailing return for the Portfolio was 0.53% compared to the benchmark’s return of 0.25%.
- Yields remained within a narrow range through the first two months of the quarter before rising strongly in anticipation of the March Federal Open Market Committee (“FOMC”) rate hike as Fed officials made a concerted effort to telegraph expectations. Yields on the short-end of the curve ended the quarter higher, reflecting the rate hike, while long-term yields declined alongside future inflation expectations.
- Since yields are currently stable and it is the expectation of no action at the next FOMC meeting in May, the strategy of the Portfolio will be to target a duration to closely match that of the benchmark. This position will be revisited regularly, especially in light of the potential for higher yields later in the year. As of March 31, 2017 the Portfolio’s effective duration was 1.81 years.
- Agency yield spreads over Treasuries continue to remain historically narrow. As a result, the Portfolio strategy will generally favor U.S. Treasuries over agencies, unless specific issues offer identifiable value. Supranational issues also offer opportunities in the space.
- Although yield spreads on corporate securities drifted wider at the end of the first quarter, they remain near multi-year lows. Identifying incremental return potential in the corporate bond sector requires careful relative value analysis. Improving corporate profits, as well as anticipated pro-business measures from the Trump administration, form a favorable backdrop for the credit sector.

Hampton Roads Sanitation District – Operating Funds

Investment Report – Quarter Ended March 31, 2017

Portfolio Composition

Security Type	March 31, 2017	% of Portfolio	December 31, 2016	% of Portfolio	Permitted by Policy
U.S. Treasuries	\$34,652,195	14.5%	\$33,628,145	13.3%	100%
Federal Agencies	38,592,667	16.1%	36,957,996	14.6%	100%
Supra Sovereign Agencies	9,601,896	4.0%	6,950,691	2.7%	15%
Commercial Paper	2,441,366	1.0%	7,327,070	2.9%	25%
Certificates of Deposit	12,196,058	5.1%	12,225,944	4.8%	10%
Municipal Obligations	2,175,704	0.9%	2,183,655	0.9%	15%
Corporate Notes / Bonds	24,155,782	10.1%	24,046,067	9.5%	25%
Money Market Mutual Funds / LGIP / Cash	115,225,641	48.2%	130,389,498	51.4%	100%
Totals	\$239,041,309	100.0%	\$253,709,067	100.0%	

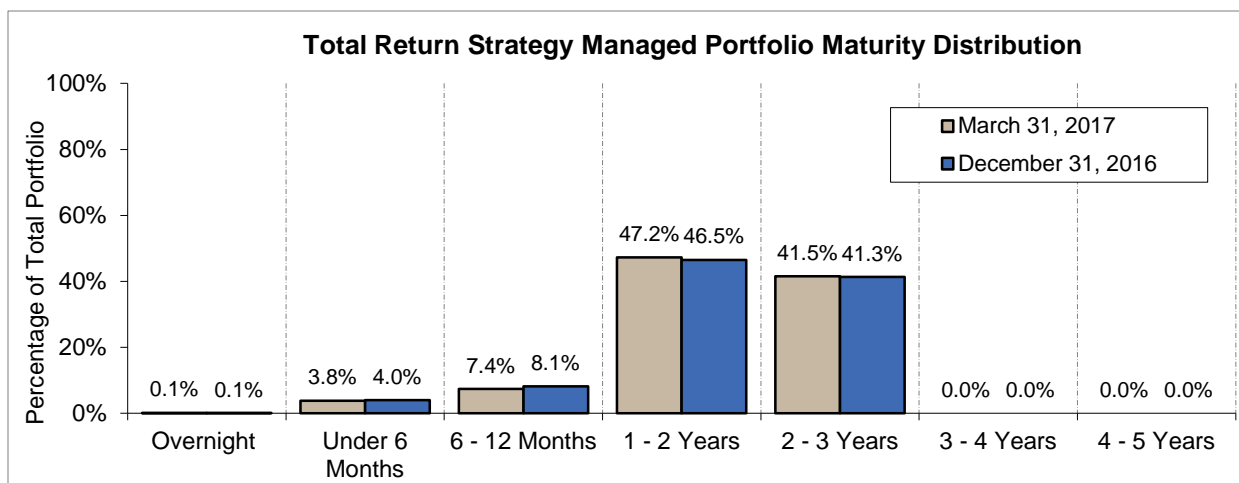
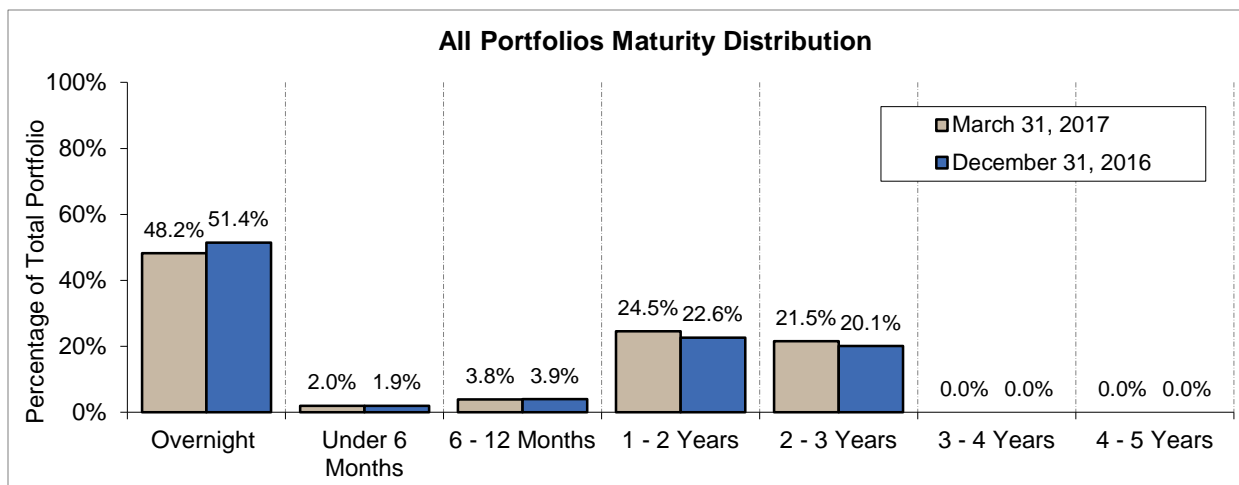


Hampton Roads Sanitation District – Operating Funds

Investment Report – Quarter Ended March 31, 2017

Portfolio Maturity Distribution

Maturity Distribution	March 31, 2017	December 31, 2016
Overnight	115,225,641	130,389,498
Under 6 Months	4,695,951	4,894,480
6 - 12 Months	9,132,762	10,009,693
1 - 2 Years	58,532,303	57,407,564
2 - 3 Years	51,454,651	51,007,831
3 - 4 Years	0	0
4 - 5 Years	0	0
5 Years and Over	0	0
Totals	\$239,041,309	\$253,709,067

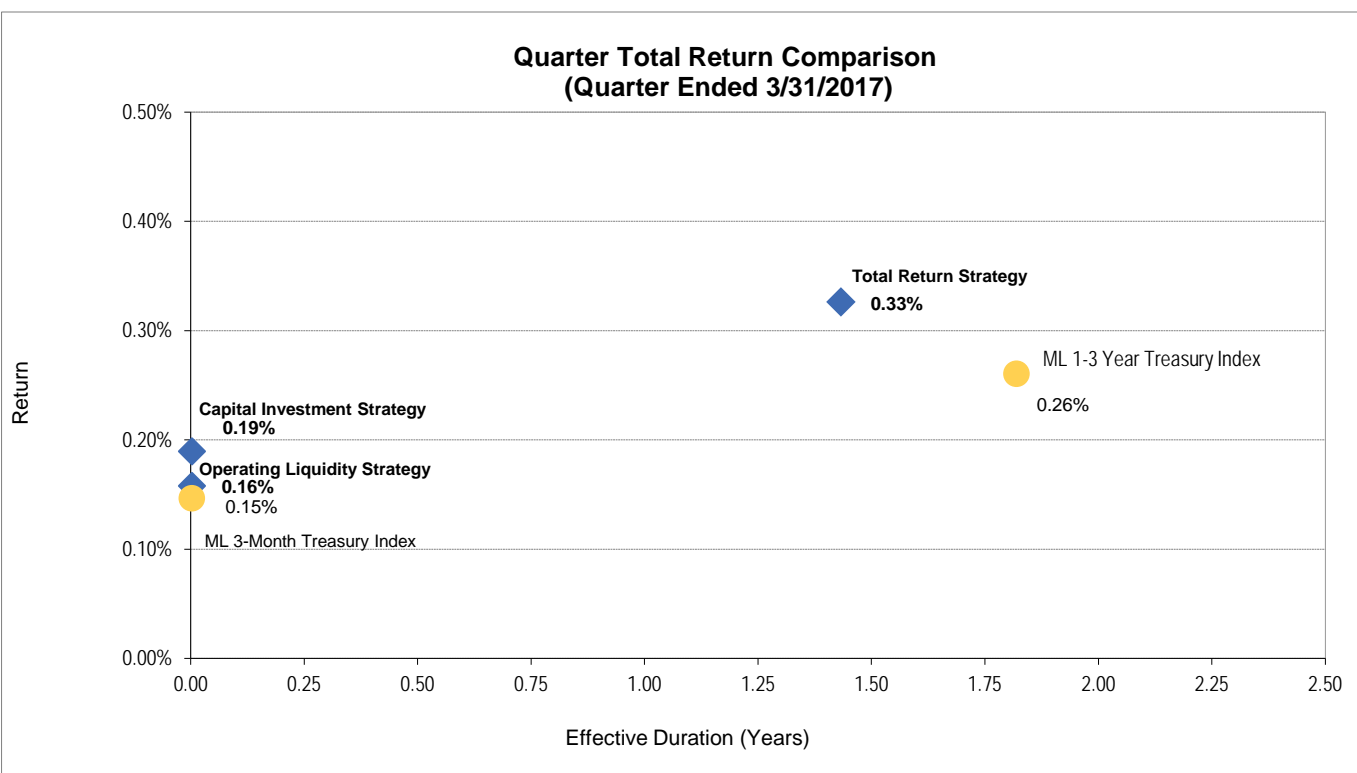


Hampton Roads Sanitation District – Operating Funds

Investment Report

Portfolio Performance

	Quarter Ended March 31, 2017	Annualized Quarterly Return	Last 24 Months	Last 36 Months	Annualized Since Inception*
Total Return Performance					
Total Return Strategy	0.33%	1.33%	0.97%	1.00%	1.13%
Total Return Strategy Managed	0.36%	1.47%	0.88%	0.94%	1.11%
Merrill Lynch 1-3 Year Treasury Index	0.26%	1.06%	0.58%	0.72%	0.93%
Book Value Performance					
Operating Liquidity Strategy	0.16%	0.64%	0.33%	0.30%	0.29%
Capital Investment Strategy	0.19%	0.77%	0.39%	0.32%	0.27%
Merrill Lynch 3 Month Treasury Bill Index	0.15%	0.59%	0.25%	0.17%	0.11%



*Since inception returns are calculated since September 30, 2009 to present. Performance for the Operating Liquidity Strategy and Capital Investment Strategy is calculated using a weighted average yield of cash and investments, including the monthly bank earnings credit rate and interest rate and the monthly distribution yield of the local government investment pools or money market mutual funds, and book value earnings on short-term fixed income securities. Performance for the Total Return Strategy Managed Portfolio is calculated as the total return, which captures interest income, realized gains/losses, and unrealized gains/losses, on the managed portfolio of short-term fixed income securities. The Total Return Strategy performance is calculated as the weighted average of the total return of the Managed Portfolio and average yield of cash balances. Calculations are based on provided information and are believed to be accurate based upon available data.