

Hampton Roads Sanitation District – Operating Funds

Investment Report – Quarter Ended June 30, 2018

Portfolio Summary

	Market Value	
	June 30, 2018	March 31, 2018
Operating Liquidity Strategy	\$ 72,203,362	\$ 61,902,839
Total Return Strategy	\$ 139,941,352	\$ 154,548,251
Capital Investment Strategy	\$ 75,874,029	\$ 81,426,020
Total Portfolio	\$ 288,018,743	\$ 297,877,110

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 LGIPs.

Portfolio Performance Summary

- HRSD maintains sizeable balances in overnight investment vehicles, such as bank deposits and LGIPs. These allocations are carefully managed to allow HRSD to generate the highest rate of return while preserving daily liquidity and operational efficiency. As of June 30, 2018, \$69.0 million was held in the Virginia LGIP, earning 2.03%, compared to \$27.1 million in bank deposits, earning 0.20%. Additionally, HRSD invests its \$67.3 million in bond proceeds in the SNAP Fund, earning 2.17% as of June 30, 2018. The yield on overnight investments is compared to the Merrill Lynch 3-month Treasury Bill's yield, which was 1.92% as of June 30, 2018.
- 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 Managed Portfolio generated a total return of 0.32% (1.27% annualized), outperforming the Merrill Lynch 1 - 3 Year U.S. Treasury Index's return of 0.22% (0.89% annualized).

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Portfolio Summary *(continued)*

Total Return Strategy Portfolio

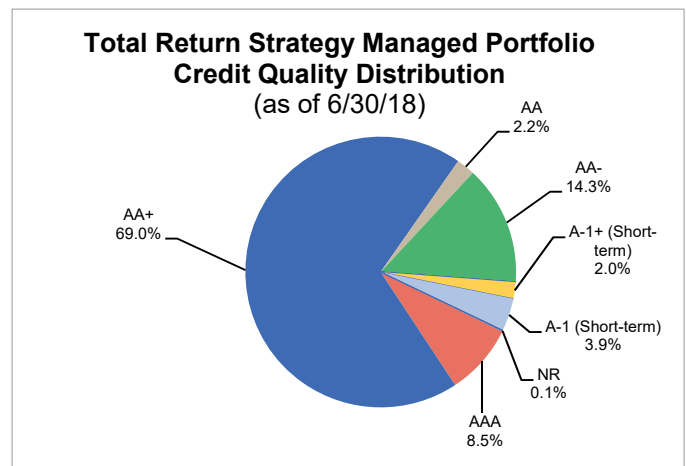
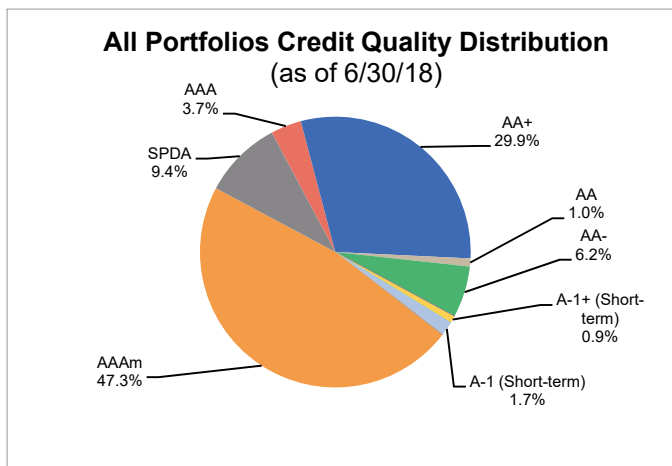
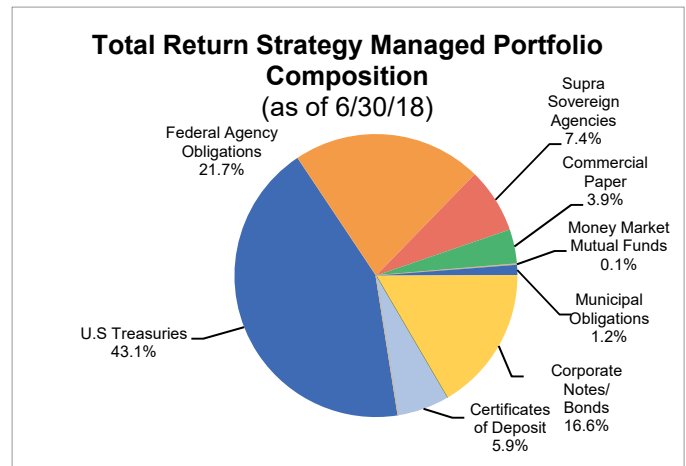
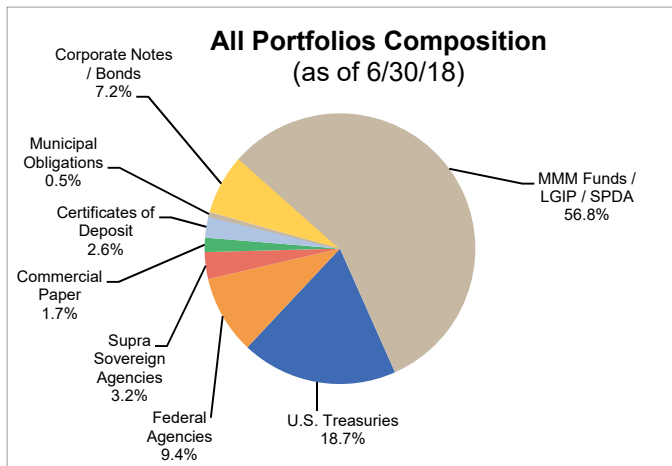
- The Total Return Strategy includes \$125 million invested in the Total Return Strategy Managed Portfolio (the “Managed Portfolio”), an actively-managed diversified portfolio of securities. In addition to this Managed Portfolio, the Total Return Strategy includes \$15.3 million that has been set aside as a reserve available in case HRSD is required to establish a Debt Service Reserve Fund. This reserve is expected to decline annually. The reserve has been invested in the Virginia LGIP in order to protect the funds from any potential market value fluctuations and to provide liquidity if needed.
- The Total Return Strategy Managed Portfolio is well diversified among U.S. Treasury securities, federal agency securities, supra sovereign agencies, certificates of deposit, corporate notes, commercial paper, and high quality money market mutual funds. The Portfolio’s average credit quality is AA+.
- In the second quarter of 2018, the Total Return Strategy Managed Portfolio generated a total return of 0.32% (1.27% annualized), matching the Merrill Lynch 1 - 3 Year U.S. Treasury Index’s return of 0.22% (0.89% annualized). The one-year trailing return for the Total Return Strategy Managed Portfolio was 0.31% compared to the benchmark’s return of 0.08%.
- The Federal Open Market Committee (“the Committee”) decided to raise the target range for the federal funds rate $\frac{1}{4}$ percent to $1\frac{3}{4}$ to 2 percent. The Committee noted that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of labor market conditions and inflation near the Committee’s 2 percent objective over the medium term.
- During the quarter, the 2-year U.S. Treasury yield increased from 2.27% to 2.53%. A defensive duration strategy was taken relative to benchmarks to help insulate the managed portfolio from the negative impacts of rising interest rates. As of June 30, 2018, the Managed Portfolio’s duration was 1.68 years compared to the benchmark’s duration of 1.80.
- Corporate notes and certificates of deposits offered attractive yields in comparison to U.S. Treasuries. Allocations to credit improved the managed portfolio’s performance during the quarter in a market in which inflation concerns and trade tensions ran high and contributed to volatility. In April, \$1.46 million in corporate notes were added at a yield of 3.14% and in June \$2.45 million of corporate notes were added at an average yield of 3.17%.

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Portfolio Composition

Security Type	June 30, 2018	% of Portfolio	March 31, 2018	% of Portfolio	Permitted by Policy
U.S. Treasuries	\$53,772,655	18.7%	\$46,531,922	15.6%	100%
Federal Agencies	27,011,397	9.4%	31,355,714	10.5%	100%
Supra Sovereign Agencies	9,264,722	3.2%	9,244,492	3.1%	15%
Commercial Paper	4,920,713	1.7%	4,888,137	1.6%	25%
Certificates of Deposit	7,378,046	2.6%	7,379,218	2.5%	25%
Municipal Obligations	1,459,006	0.5%	0	0.0%	15%
Corporate Notes / Bonds	20,729,879	7.2%	24,773,762	8.3%	25%
Money Market Mutual Funds / LGIP / Cash	163,482,325	56.8%	173,703,863	58.3%	100%
Totals	\$288,018,743	100.0%	\$297,877,110	100.0%	

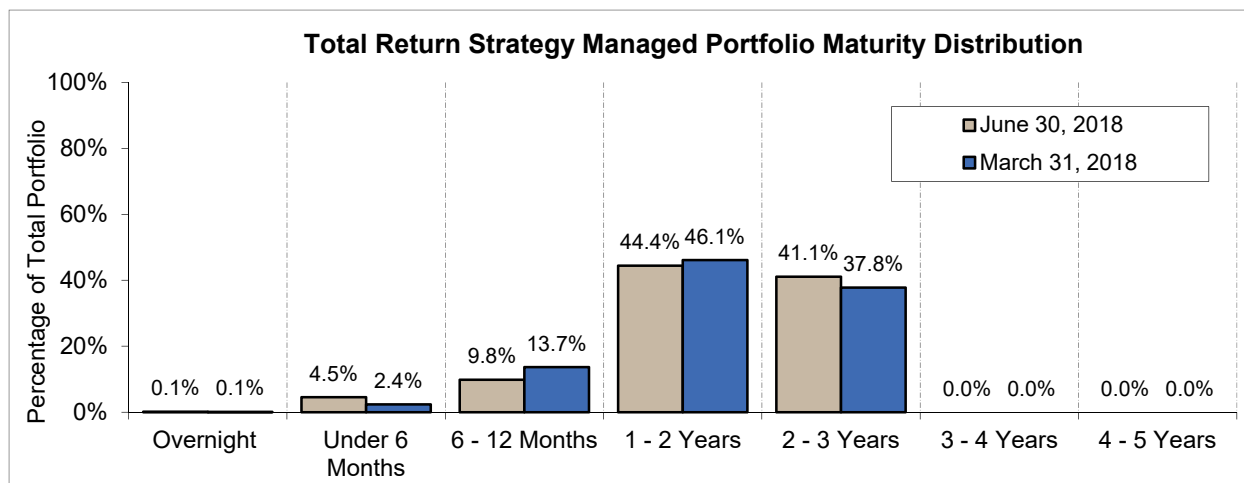
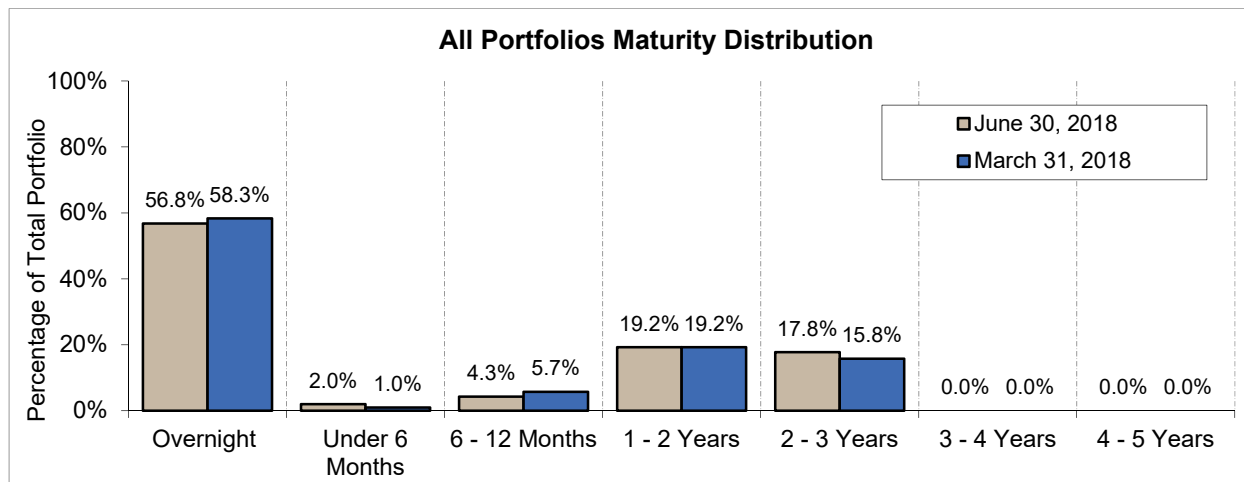


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Portfolio Maturity Distribution

Maturity Distribution	June 30, 2018	March 31, 2018
Overnight	163,482,325	173,703,863
Under 6 Months	5,670,691	2,922,639
6 - 12 Months	12,256,047	16,989,494
1 - 2 Years	55,413,991	57,311,123
2 - 3 Years	51,195,689	46,949,990
3 - 4 Years	0	0
4 - 5 Years	0	0
5 Years and Over	0	0
Totals	\$288,018,743	\$297,877,110



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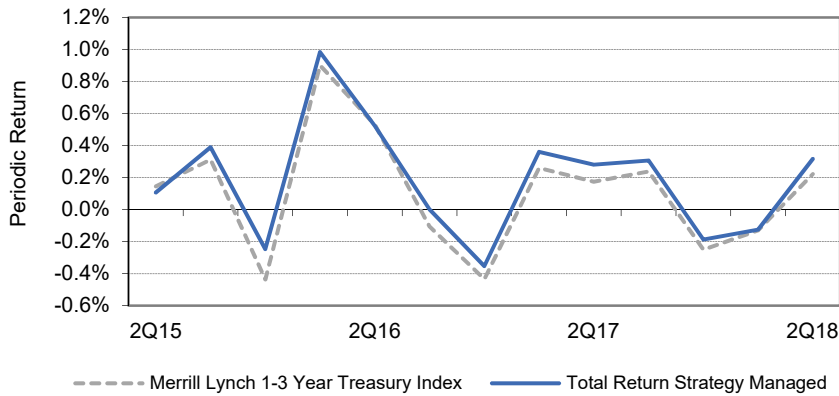
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Portfolio Performance

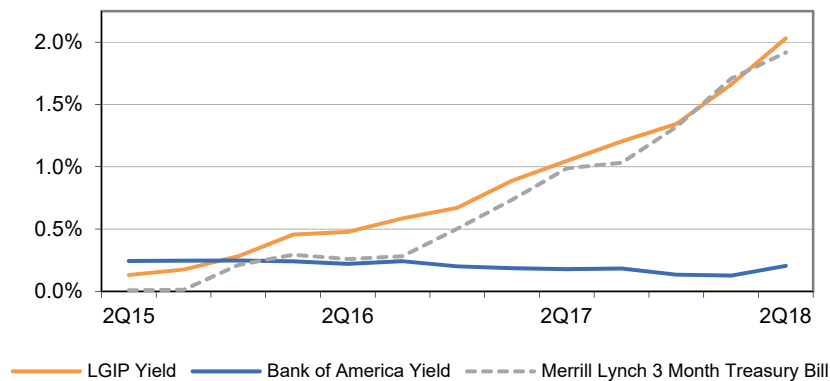
	Quarter Ended June 30, 2018	Annualized Quarterly Return	Last 24 Months	Last 36 Months	Annualized Since Inception*
Total Return Performance					
Total Return Strategy Managed	0.32%	1.27%	0.30%	0.75%	1.02%
Merrill Lynch 1-3 Year Treasury Index	0.22%	0.89%	-0.01%	0.42%	0.83%

	Balance as of June 30, 2018	Yield as of June 30, 2018	Balance as of March 31, 2018	Yield as of March 31, 2018
Other Funds				
Virginia LGIP	\$ 68,984,048	2.03%	\$ 73,595,400	1.66%
Virginia SNAP	\$ 67,277,974	2.17%	\$ 75,049,862	1.78%
Bank of America	\$ 27,081,693	0.20%	\$ 24,949,921	0.13%
Merrill Lynch 3-Month Treasury Bill		1.92%		1.71%

Performance Comparison



Historical Yield Comparison



*Since inception returns are calculated since September 30, 2009 to present. 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. Calculations are based on provided information and are believed to be accurate based upon available data. The yield for the Virginia LGIP is the average monthly yield. The yield for Bank of America is the weighted average yield between the earnings credit rate less a balance based fee assessed by Bank of America and the hard-dollar interest rate at Bank of America, less the balance based fee.