

## Hampton Roads Sanitation District – Operating Funds

Investment Report – Quarter Ended December 31, 2017

### Portfolio Summary

	Market Value	
	December 31, 2017	September 30, 2017
Operating Liquidity Strategy	\$ 59,528,285	\$ 49,608,648
Total Return Strategy	\$ 154,704,589	\$ 154,935,563
Capital Investment Strategy	\$ 16,378,510	\$ 27,564,226
<b>Total Portfolio</b>	<b>\$ 230,611,384</b>	<b>\$ 232,108,437</b>

### 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

- 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 December 31, 2017, \$83.3 million was held in the Virginia LGIP, earning 1.34%, compared to \$22.9 million in bank deposits, earning 0.13%. The yield on overnight investments is compared to the Merrill Lynch 3-month Treasury Bill's yield, which was 1.32% as of December 31, 2017.
- 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 -0.19% (-0.74% annualized) outperforming the Merrill Lynch 1 - 3 Year U.S. Treasury Index's return of -0.25% (-0.99% annualized).

## Hampton Roads Sanitation District – Operating Funds

---

*Investment Report – Quarter Ended December 31, 2017*

### Portfolio Summary *(continued)*

#### Total Return Strategy Portfolio

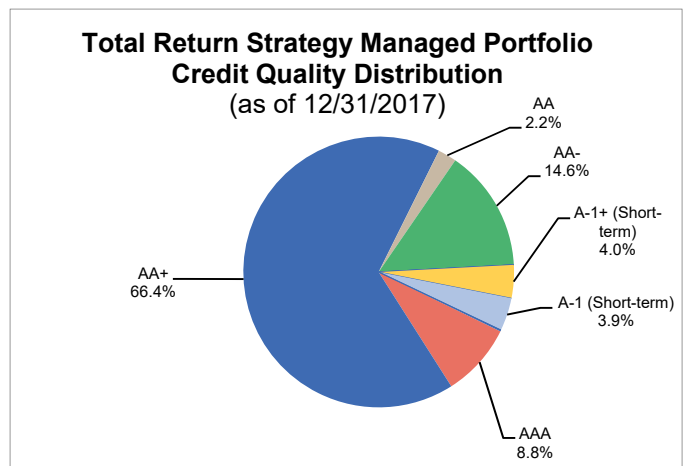
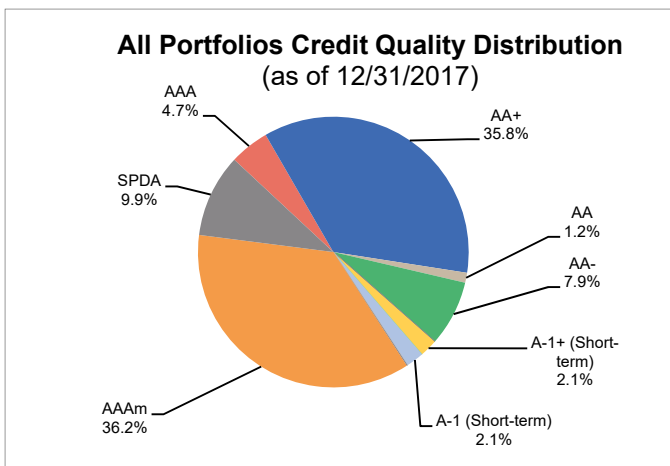
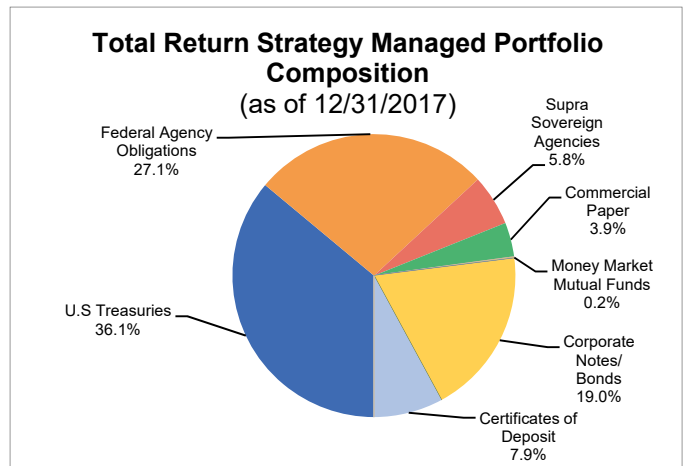
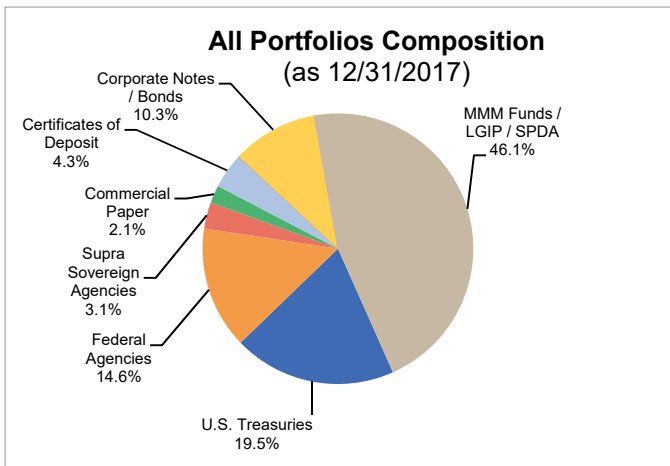
- The Total Return Strategy includes \$124 million invested in the Total Return Strategy Managed Portfolio (the “Managed Portfolio”), an actively-managed diversified portfolio of securities. In addition to this Managed Portfolio, the Total Return Strategy includes \$30.3 million that has been set aside 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 fourth quarter of 2017, the Total Return Strategy Managed Portfolio generated a total return of -0.19% (-0.74% annualized), outperforming the Merrill Lynch 1 - 3 Year U.S. Treasury Index’s return of -0.25% (-0.99% annualized). The one-year trailing return for the Total Return Strategy Managed Portfolio was 0.76% compared to the benchmark’s return of 0.42%.
- Following three rate hikes in 2017, the projections released at the December 2017 Federal Open Market (“FOMC”) meeting indicated an expectation for three more hikes in 2018. As of year-end, the market-implied probability of a Fed rate hike at the March 2018 FOMC meeting was 70%.
- Generally, the economic themes that brought 2017 to a close are expected to carry forward into 2018, including: moderate growth and job production, healthy personal consumption, and strong corporate fundamentals.
- Federal agencies performed in line with similar maturity Treasuries, as the sector’s narrow yield spreads provided little to no incremental income benefit and relatively unchanged spreads over the quarter muted any additional excess return. Federal agency spreads remain tight; however, the best value relative to US Treasuries is in the two to three year area of the curve.
- Narrow credit spreads and a flat yield curve created sensitivity to being too long or too short relative to the benchmark during the quarter. As a result, a duration-neutral stance relative to benchmark was employed. As of December 31, 2017 the Managed Portfolio’s duration was 1.77 years compared to the benchmark’s duration of 1.80.
- Corporate yield spreads are expected to remain stable, with incremental income being supportive of continued expected outperformance. Careful issuer due diligence will drive selection in the Managed Portfolio.

# Hampton Roads Sanitation District – Operating Funds

Investment Report – Quarter Ended December 31, 2017

## Portfolio Composition

Security Type	December 31, 2017	% of Portfolio	September 30, 2017	% of Portfolio	Permitted by Policy
U.S. Treasuries	\$44,869,656	19.5%	\$45,062,422	19.4%	100%
Federal Agencies	33,671,243	14.6%	33,774,724	14.6%	100%
Supra Sovereign Agencies	7,244,619	3.1%	8,508,580	3.7%	15%
Commercial Paper	4,905,389	2.1%	2,433,661	1.0%	25%
Certificates of Deposit	9,848,631	4.3%	9,953,812	4.3%	25%
Municipal Obligations	0	0.0%	2,178,501	0.9%	15%
Corporate Notes / Bonds	23,694,404	10.3%	22,575,234	9.7%	25%
Money Market Mutual Funds / LGIP / Cash	106,377,443	46.1%	107,621,502	46.4%	100%
<b>Totals</b>	<b>\$230,611,384</b>	<b>100.0%</b>	<b>\$232,108,437</b>	<b>100.0%</b>	

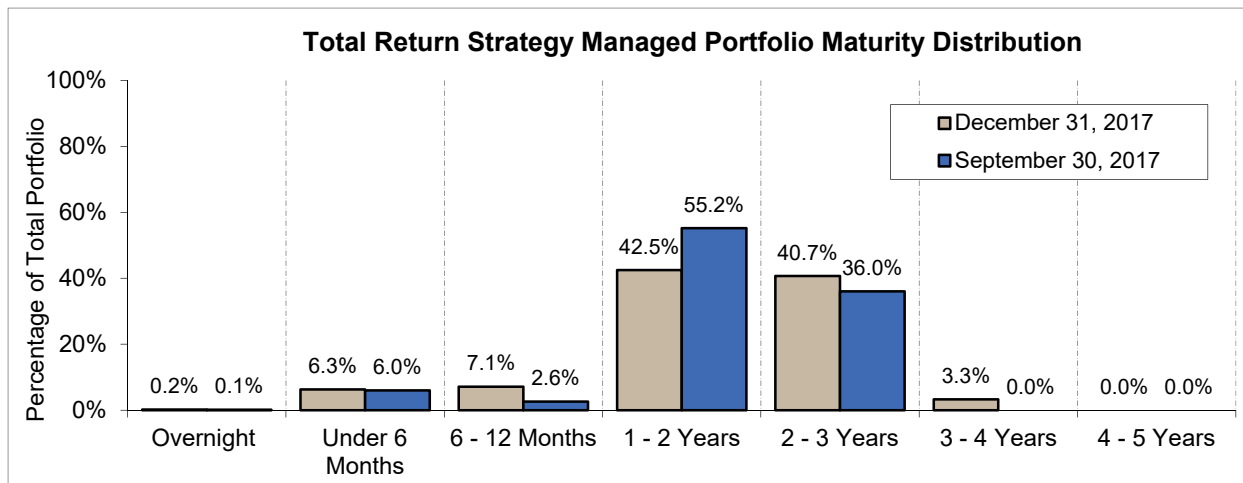
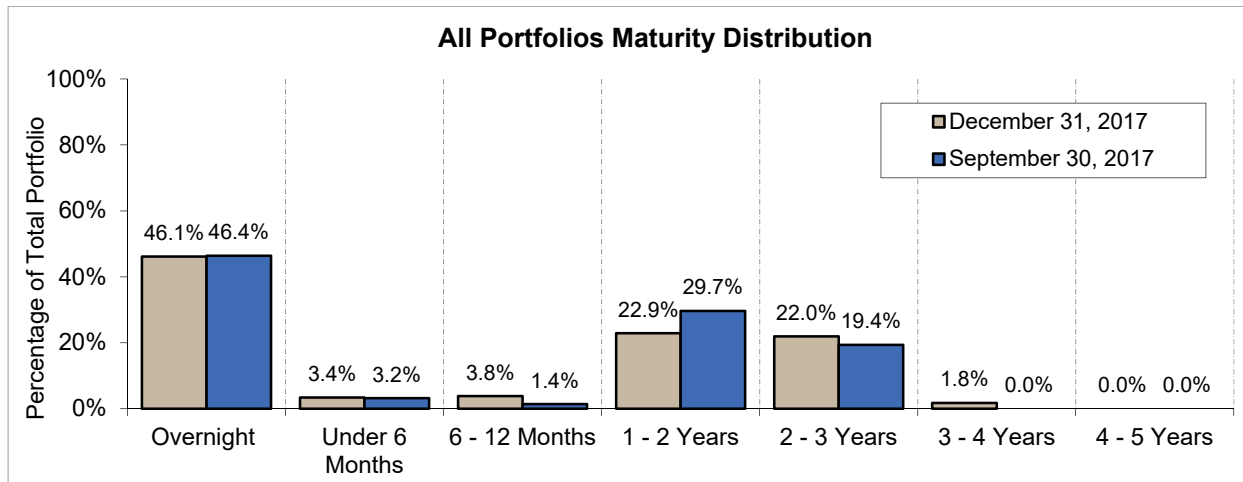


# Hampton Roads Sanitation District – Operating Funds

Investment Report – Quarter Ended December 31, 2017

## Portfolio Maturity Distribution

Maturity Distribution	December 31, 2017	September 30, 2017
Overnight	106,377,443	107,621,502
Under 6 Months	7,843,495	7,463,620
6 - 12 Months	8,834,103	3,250,219
1 - 2 Years	52,857,594	68,850,481
2 - 3 Years	50,627,058	44,922,614
3 - 4 Years	4,071,691	0
4 - 5 Years	0	0
5 Years and Over	0	0
<b>Totals</b>	<b>\$230,611,384</b>	<b>\$232,108,437</b>



# Hampton Roads Sanitation District – Operating Funds

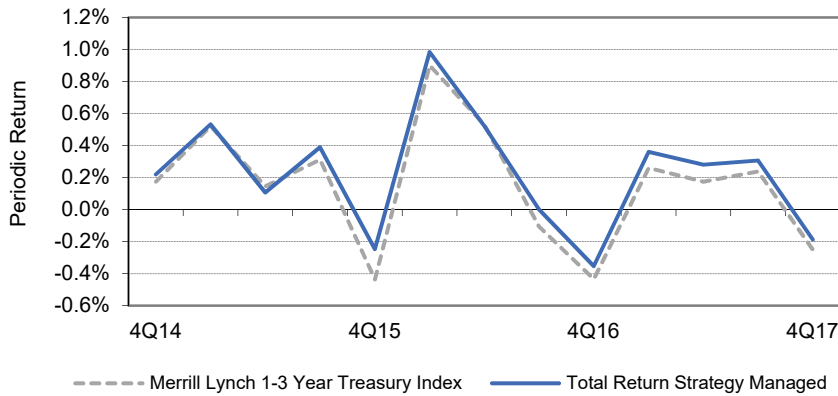
## Investment Report

### Portfolio Performance

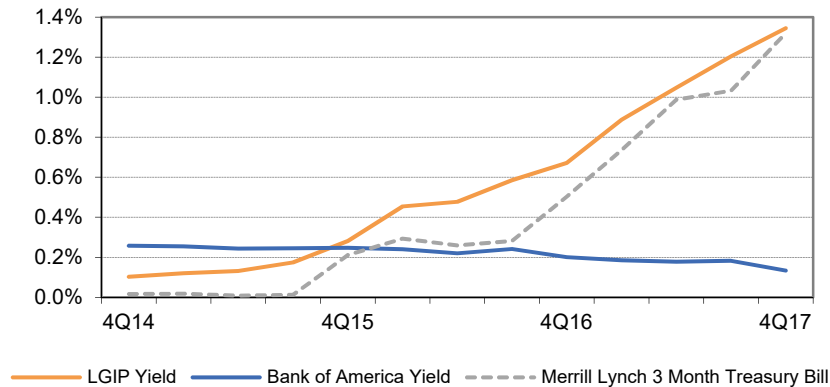
	Quarter Ended December 31, 2017	Annualized Quarterly Return	Last 24 Months	Last 36 Months	Annualized Since Inception*
<b>Total Return Performance</b>					
Total Return Strategy Managed	-0.19%	-0.74%	0.95%	0.90%	1.06%
Merrill Lynch 1-3 Year Treasury Index	-0.25%	-0.99%	0.65%	0.62%	0.87%

	Balance as of December 31, 2017	Yield as of December 31, 2017	Balance as of September 30, 2017	Yield as of September 30, 2017
<b>Other Funds</b>				
Virginia LGIP	\$ 83,280,004.25	1.34%	\$ 87,987,556.41	1.21%
Bank of America	\$ 22,893,114.96	0.13%	\$ 19,451,641.22	0.18%
Merrill Lynch 3-Month Treasury Bill		1.32%		1.03%

**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.