



Hampton Roads Transportation Accountability Commission Finance Committee

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Agenda

- I. Economic Update
- II. Investment Strategy
- III. Virginia State Non-Arbitrage Program (SNAP)



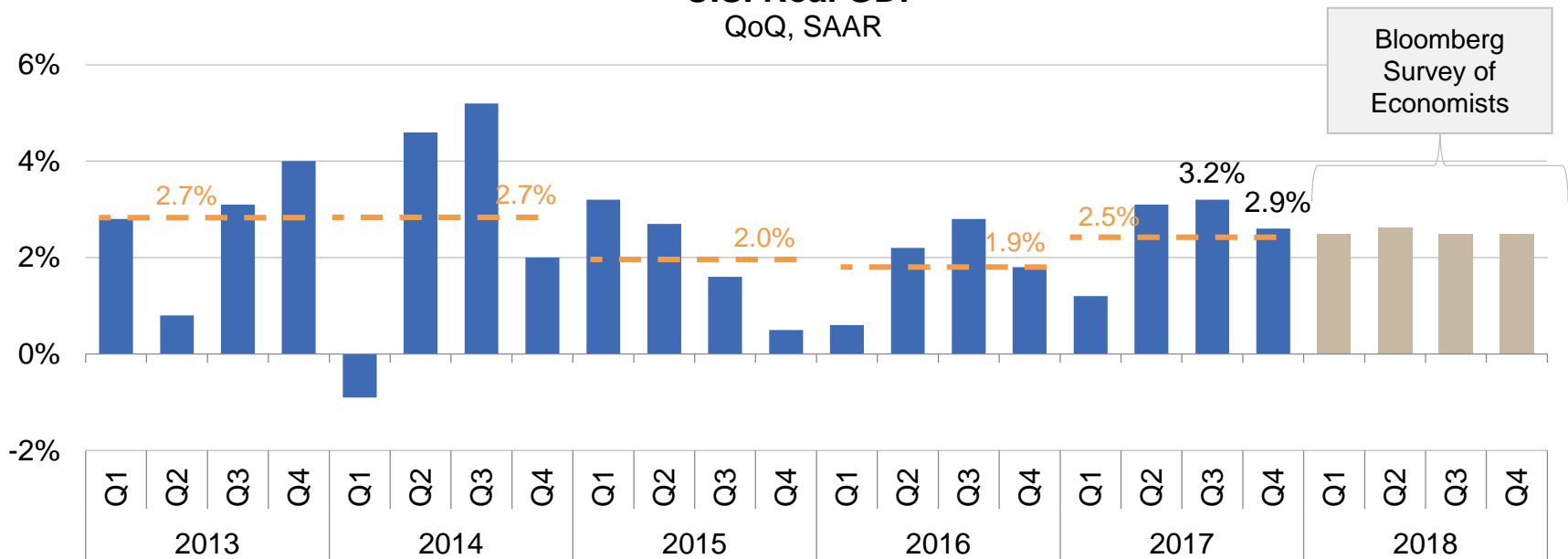
Economic Update



Economic Growth Slowed in Fourth Quarter 2017

- U.S. Gross domestic product (GDP) grew at an annualized rate of 2.9% in the fourth quarter of 2017, as the pace of expansion slowed from faster than 3.2% growth in the third quarter. For the year, growth has averaged 2.5%, fastest pace since 2014.
- Strong growth in consumer spending and business investment continued to fuel economic activity over the quarter, while significant declines in inventories and net exports were a drag on reported GDP in the fourth quarter.

U.S. Real GDP
QoQ, SAAR



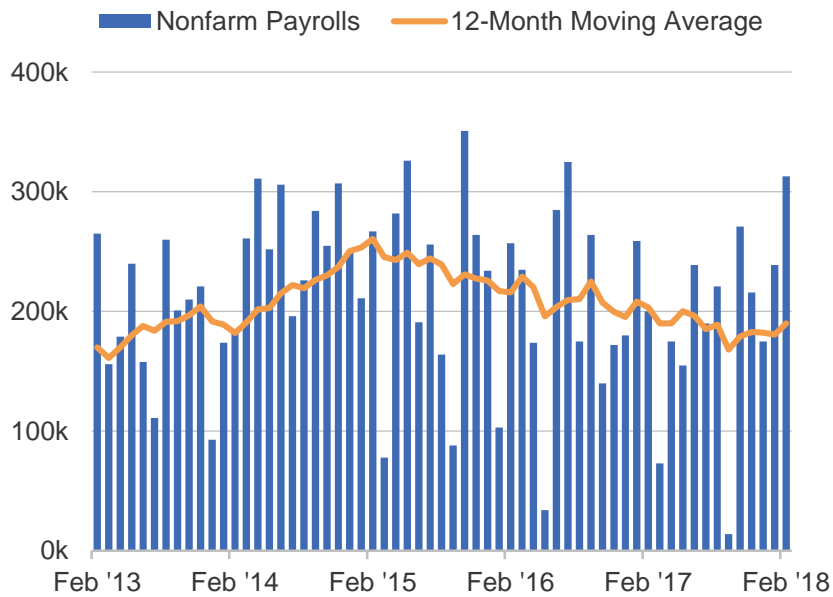
Source: Bloomberg, as of Q4 2017. SAAR is seasonally adjusted annualized rate. Orange denotes rolling four-quarter averages.



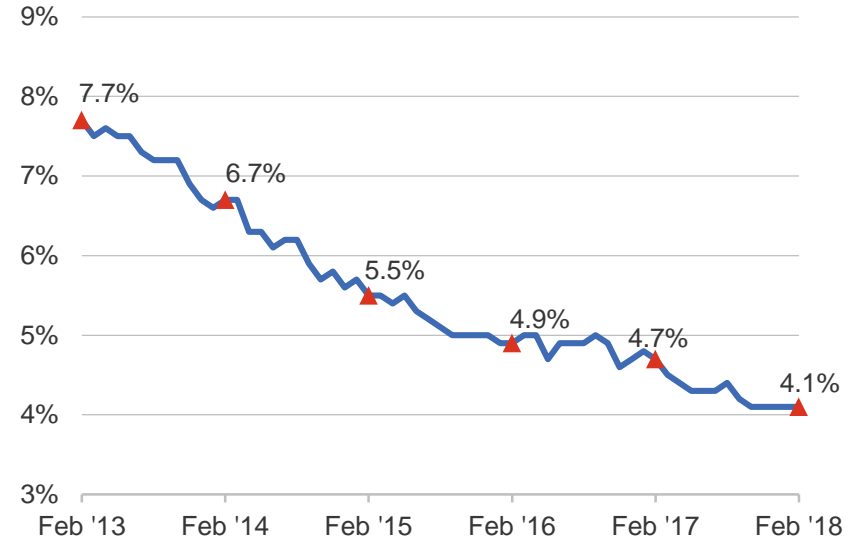
Labor Market Strengthened Further in February

- The U.S. labor market added 313,000 jobs in February, beating expectations with the fastest pace of job growth since July 2016.
 - Hiring was particularly strong in construction, factories and retail.
 - The headline unemployment rate held at 4.1% for the fifth straight month, matching the lowest level in 17 years.
 - The labor force participation rate jumped from 62.7% to 63%, the largest monthly increase since 2010.
 - After a surprisingly strong reading in January, wage pressures moderated in February. Average hourly earnings – a key measure of wage growth – rose 2.6% over the past 12 months, down from January's level of 2.9%.

Monthly Change in Nonfarm Payrolls



Unemployment Rate

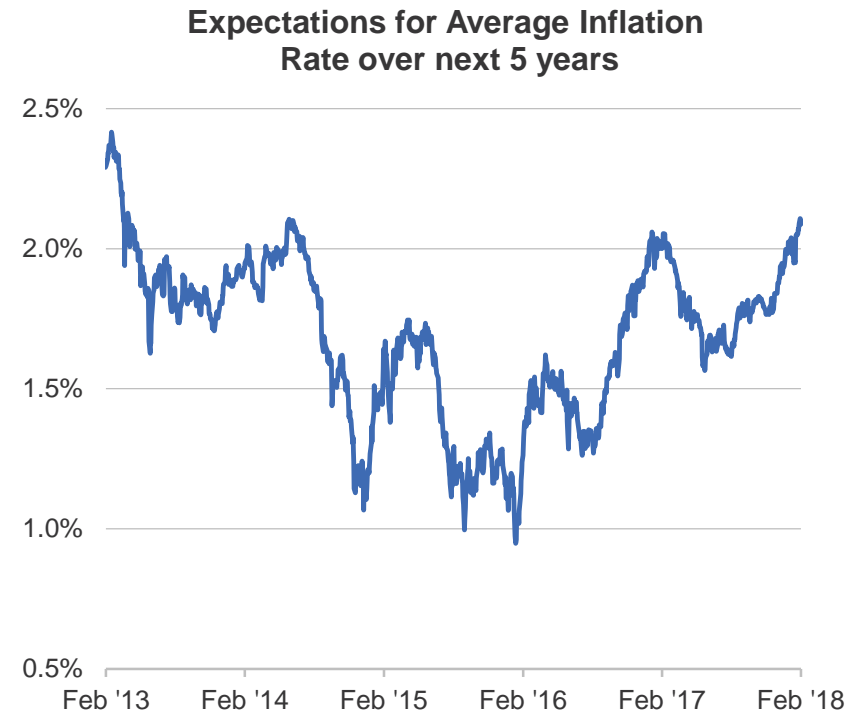
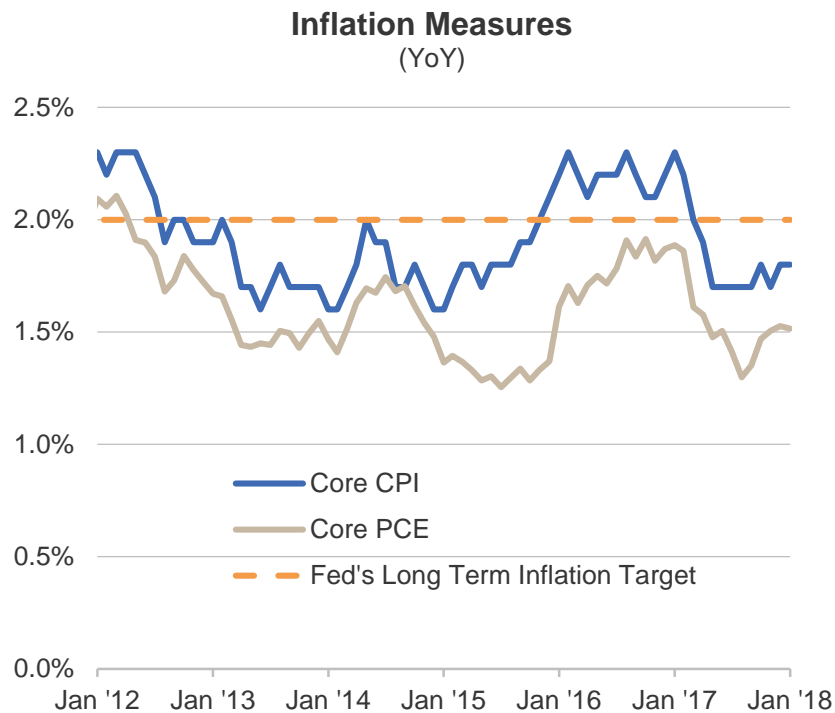


Source: Bloomberg, as of February 2018.



Inflation Expectations Have Moved Higher

- Inflation expectations have been on the rise as a result of higher wage growth and increases in gold and oil prices.
- The core personal consumption expenditures (PCE) price index, the Fed's preferred measure of inflation, remained at only 1.5% year-over-year in December.



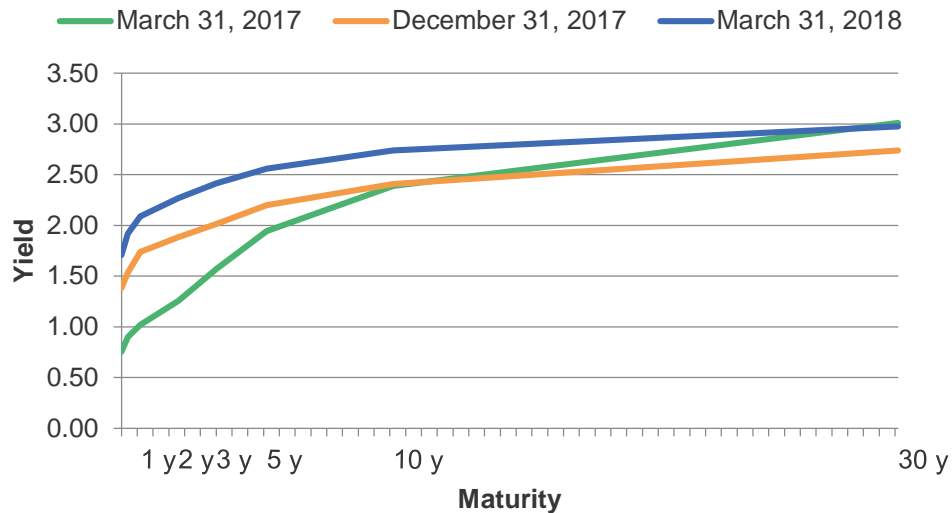
Source: Bloomberg, latest data available as of February 2018. Inflation expectations based on yield difference between 5-year Treasury note and 5-year Treasury Inflation Protected Securities (TIPS).



Short-Term Yields Rise, but Curve Flattens

- Short-term treasury yields are substantially higher compared to a year ago as the Fed raised rates several times, while longer yields reflected weaker economic growth.
- During the fourth quarter, long-term yields flattened as inflation expectations increased.

U.S. Treasury Yield Curve



Yield Curve History

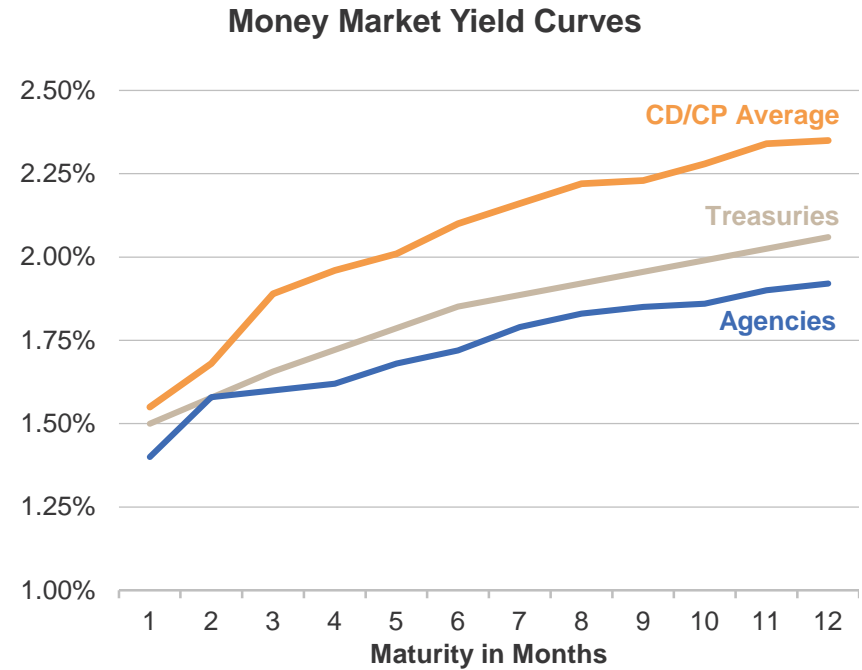
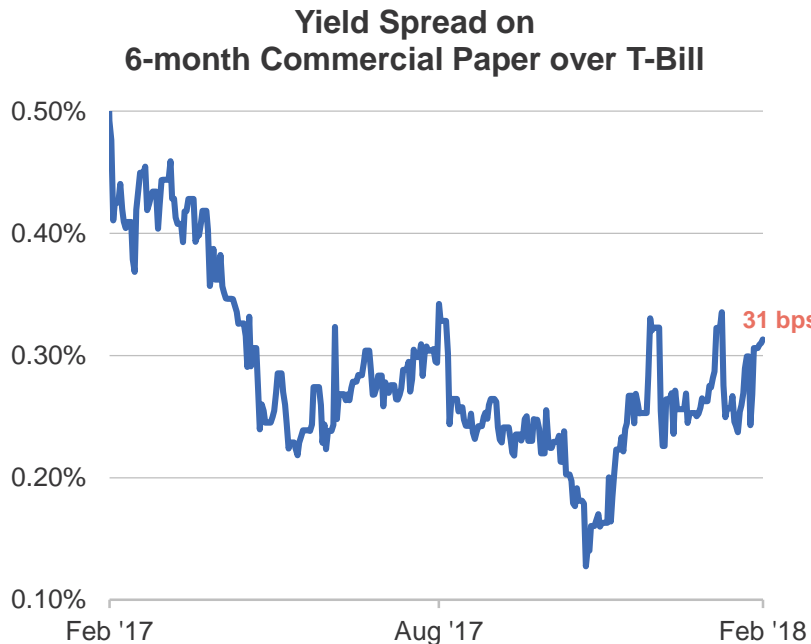
Maturity	3/31/17	12/31/17	3/31/18
3-Mo.	0.75	1.38	1.71
6-Mo.	0.90	1.53	1.92
1-Yr.	1.02	1.74	2.09
2-Yr.	1.26	1.89	2.27
3-Yr.	1.57	2.01	2.41
5-Yr.	1.94	2.20	2.56
10-Yr.	2.39	2.41	2.74
30-Yr.	3.01	2.74	2.97

Source: Bloomberg, as of 3/31/18.



Current Short-Term Credit Environment

- Commercial paper and negotiable bank CDs remain attractive alternatives to short-term Treasuries, agencies, bank deposits, and government money market funds.

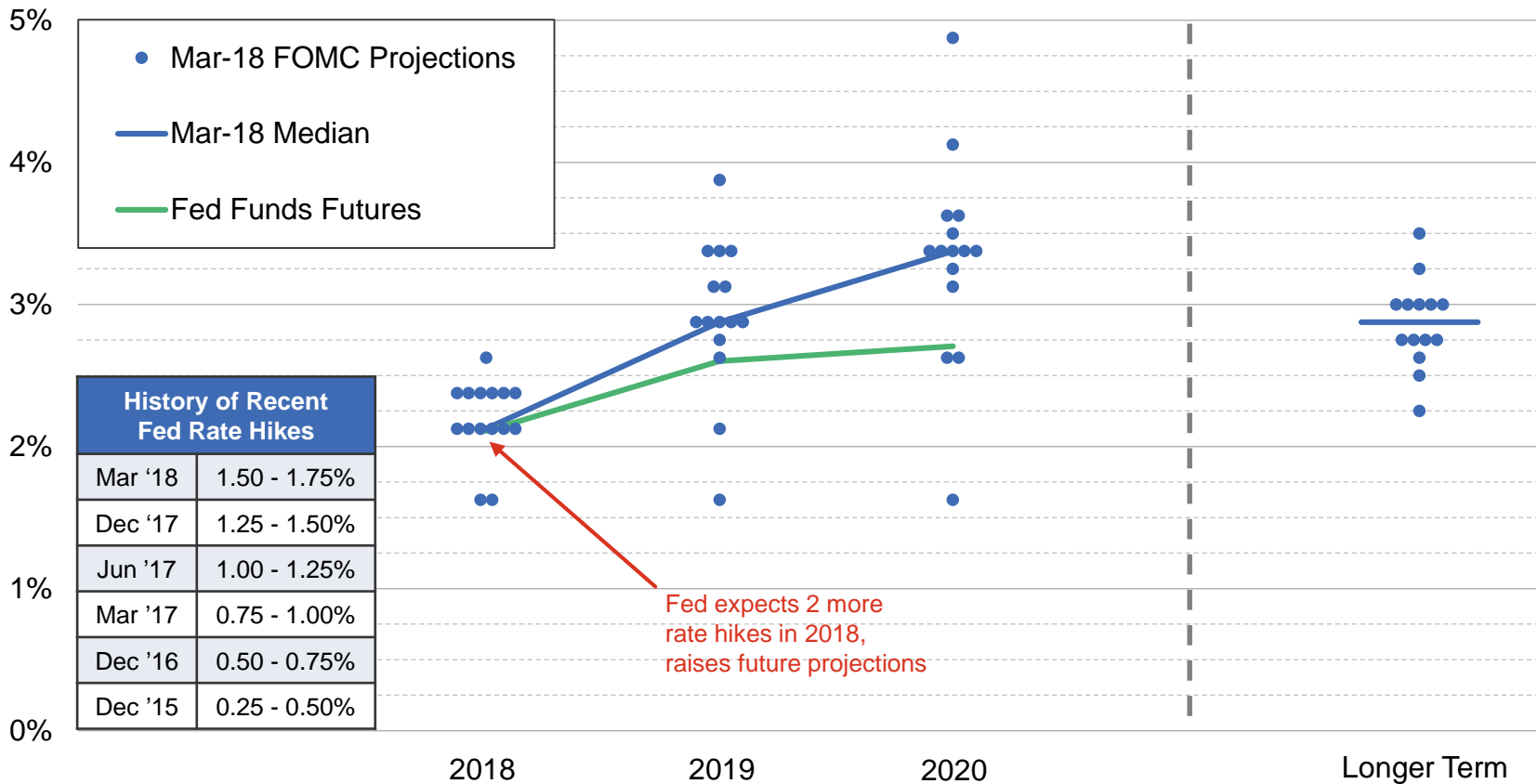


Source: Bloomberg, PFMAM Trading Desk, as of 2/28/18. Not a specific recommendation. 6-mo CP yield spread based on A1/P1 rated CP index.



FOMC “Dot Plot” – March 2018

Fed Participants’ Assessments of ‘Appropriate’ Monetary Policy

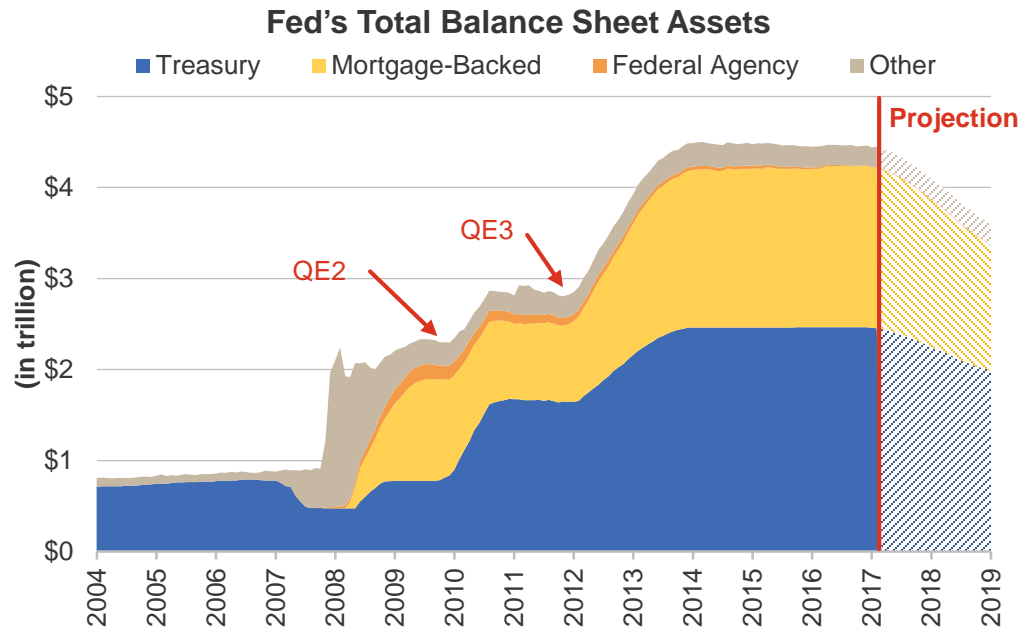


Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members’ judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 3/21/18.



Fed's Balance Sheet Normalization Plan

- The Federal Reserve began reducing the size of its balance sheet in October 2017 by decreasing reinvestments of principal payments on its holdings of U.S. Treasury and agency mortgage-backed securities.
- The pace of the decline started at \$10 billion per month in 2017 the fourth quarter, and is now \$20 billion per month in 2018 the first quarter, and will ramp up each quarter until it reaches \$50 billion per month in the fourth quarter.



(in billion)	Treasury Holdings	MBS Holdings	Total Fed Assets
Dec 2017	\$2,454	\$1,765	\$4,449
Dec 2019 (Projected)	\$1,970	\$1,357*	\$3,331
Difference:	\$(484)	\$(408)*	\$(1,118)

*MBS projection assumes that principal payments will always exceed the cap over the horizon period (i.e. the monthly run off amount is equal to the cap).

Source: PFM, Bloomberg, The Federal Reserve, FRB of St. Louis, as of 12/31/17. Projection is based on maturity schedule of Fed's Treasury holdings and caps on reinvestments as described in FOMC's June 2017 addendum to the Policy Normalization Principles and Plans.



Investment Strategy

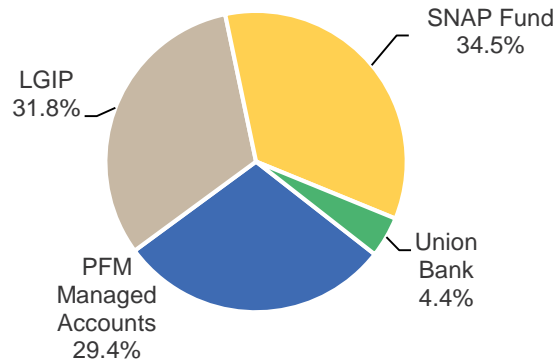


Composite Portfolio

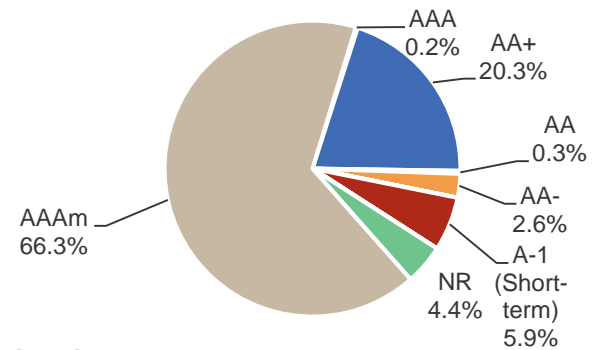
March 31, 2018

Total Funds Market Value \$1,102,986,637

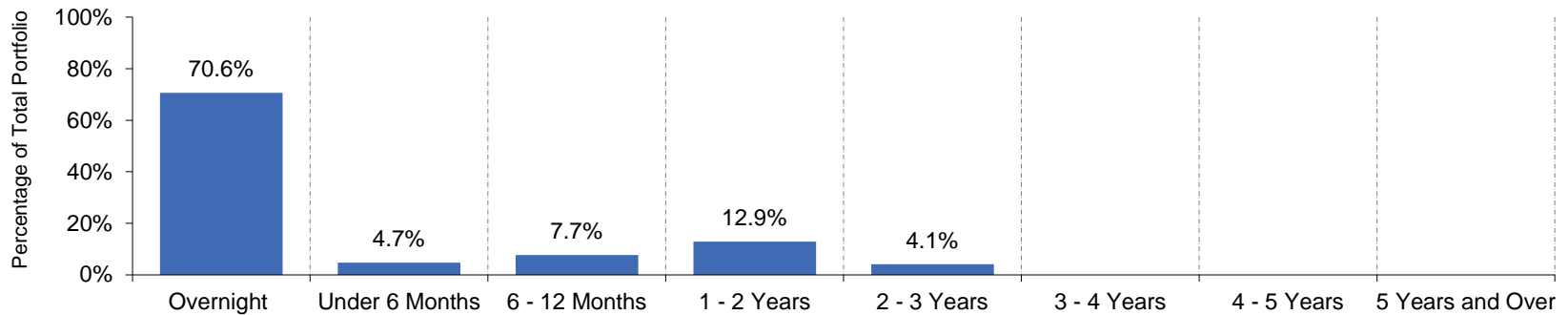
Sector Distribution



Credit Quality Distribution



Maturity Distribution

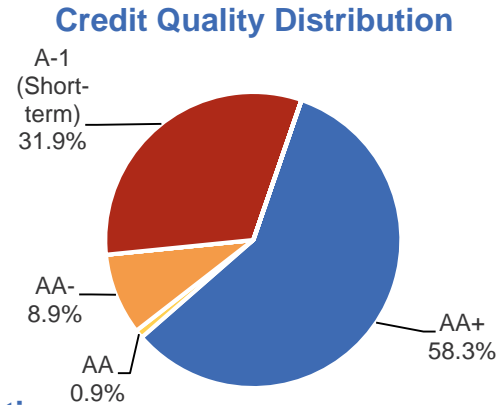
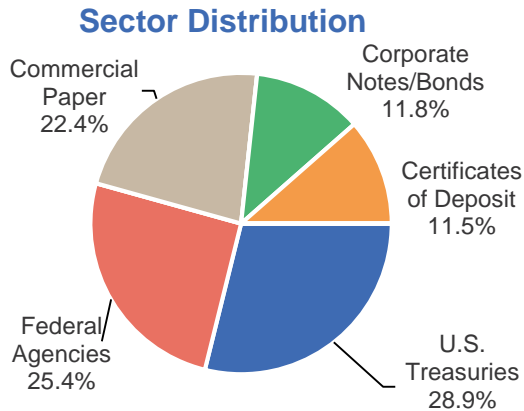




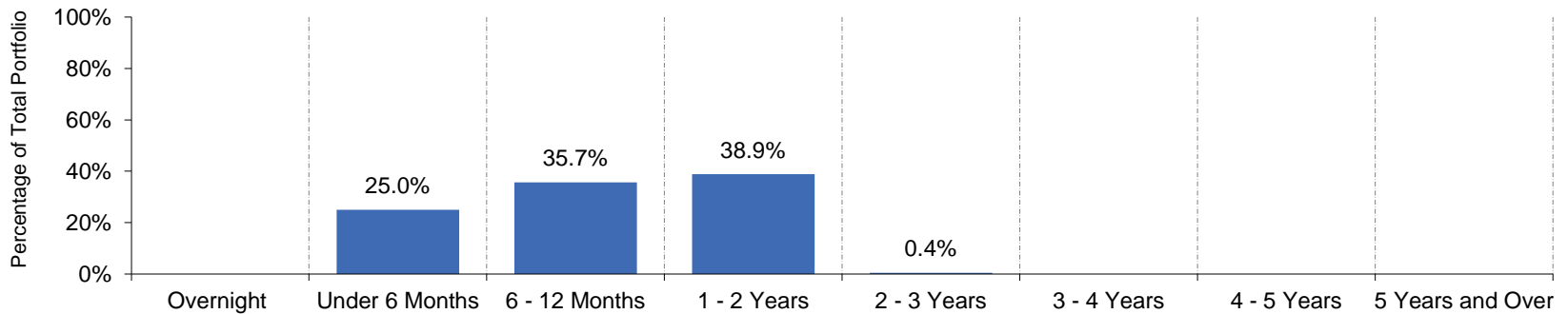
Enhanced Cash Portfolio

March 31, 2018

Portfolio Market Value	\$199,736,560
Yield at Market	2.22%
Portfolio Duration	0.86 Years



Maturity Distribution

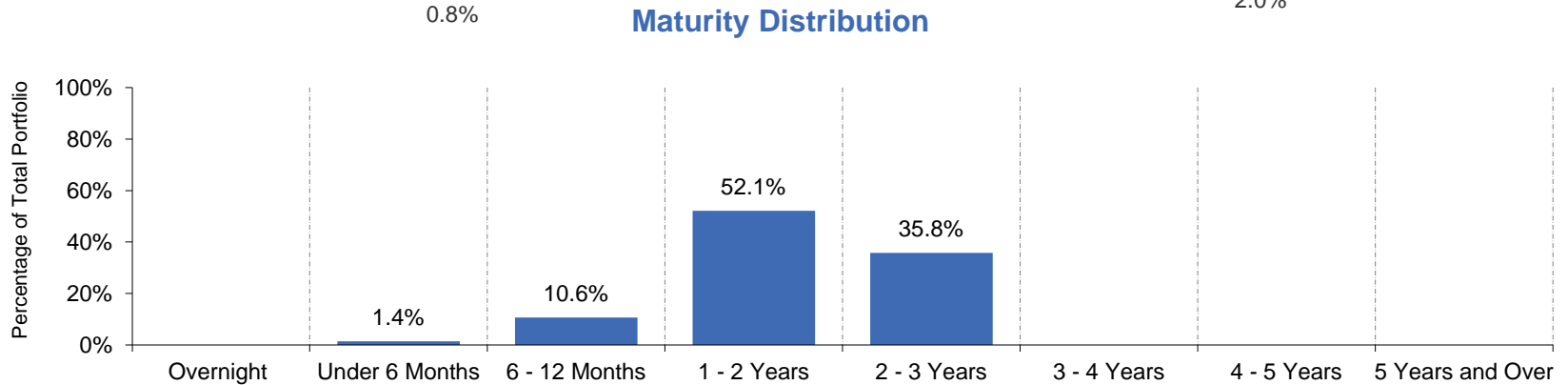
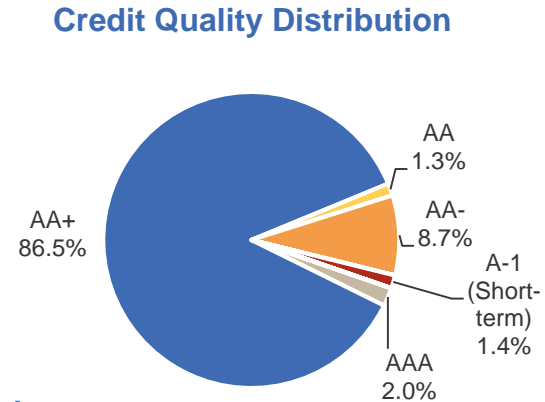
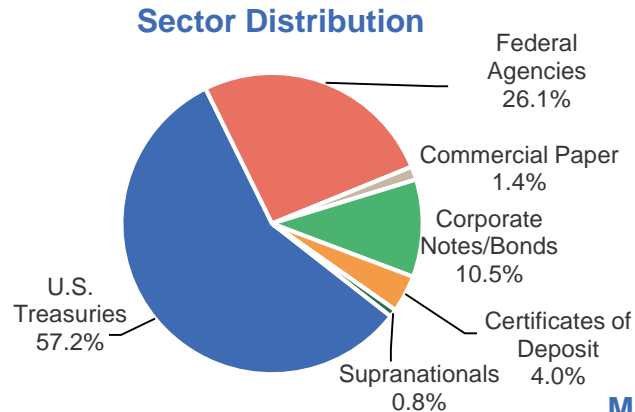




Core Portfolio

March 31, 2018

Portfolio Market Value	\$124,165,371
Yield at Market	2.33%
Portfolio Duration	1.73 Years





Virginia State Non-Arbitrage Program (SNAP)



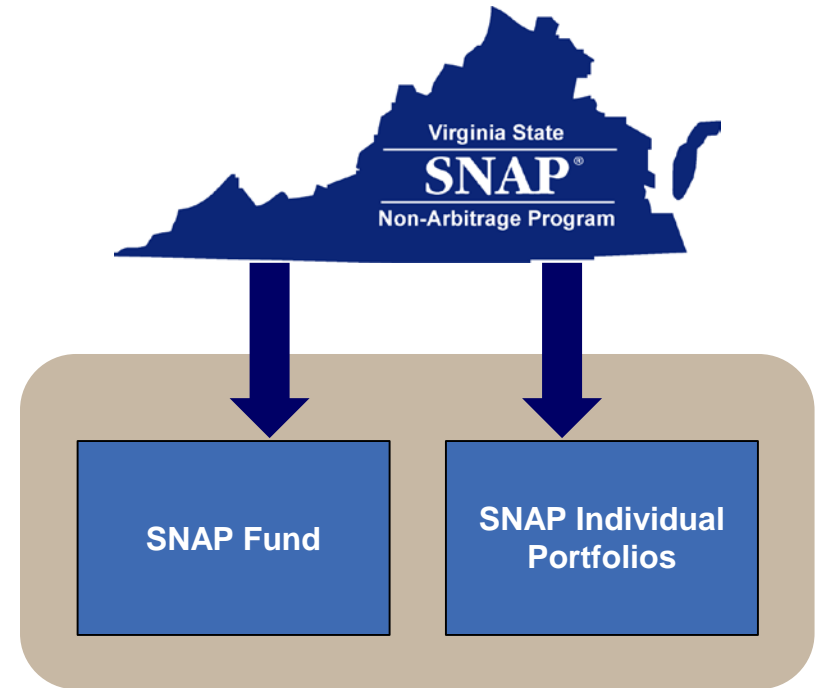
SNAP's Investment Options

• SNAP Fund

- Daily liquidity
- Current 7-day yield¹ is 1.76%

• SNAP Individual Portfolios

- Typically used to add value to an investment strategy
- Not appropriate for all investors an all bond issues



1. Current seven-day yield as of March 29, 2018, also known as the "current annualized yield", represents the net change, exclusive of capital changes and Income other than Investment Income, in the value of a hypothetical account with a balance of one share (normally \$1.00 per share) over a seven-day base period expressed as a percentage of the value of one share at the beginning of the seven-day period. This resulting net change in account value is then annualized by multiplying it by 365 and dividing the result by 7. Past performance is not indicative of future results and yields may vary.

The yields shown above may reflect fee waivers by the SNAP Fund Portfolio's current or prior service providers. When such waivers occur, they reduce the total operating expenses of the SNAP Fund Portfolio, and the SNAP Fund Portfolio yields would have been lower if there were no such waivers. Refer to the SNAP Fund's Information Statement for further information on the expenses of the SNAP Fund and fees of its service providers.



Important Disclosures

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Standard & Poor’s fund ratings are based on analysis of credit quality, market price exposure, and management. According to Standard & Poor’s rating criteria, the AAAM rating signifies excellent safety of investment principal and a superior capacity to maintain a \$1.00 per share net asset value. However, it should be understood that the rating is not a “market” rating nor a recommendation to buy, hold or sell the securities. For a full description on rating methodology, visit Standard & Poor’s website (http://www.standardandpoors.com/en_US/web/guest/home).



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