City of Salem

Quarterly Investment Report

Quarter Ended December 31, 2017

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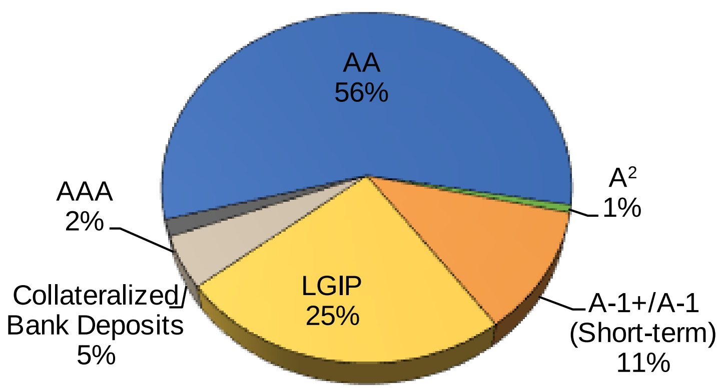
City of Salem

Summary by Sector	Amortized Cost	Market[1] Value	% of Portfolio	Allowed by Policy
U.S. Treasuries	$97,357,023	$96,970,474	27%	100%
Federal Agencies	84,083,351	83,178,143	23%	100%
U.S. Instrumentalities	2,727,466	2,693,256	1%	10%
Commercial Paper	38,098,157	38,071,519	11%	35%
Corporate Notes	28,472,682	28,289,690	8%	
LGIP	87,414,091	87,414,091	25%	ORS limit
Collateralized Deposit Accounts	17,277,429	17,277,429	5%	100%
Total	$355,430,199	$353,894,603	100%	

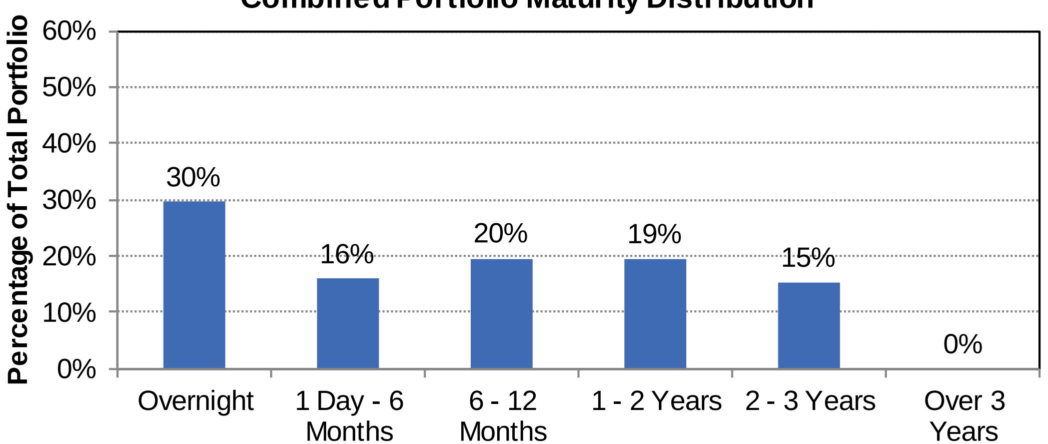
Combined Portfolio Statistics	
Combined Portfolio Yield on Cost (12/31/17)	1.40%
Weighted Average Maturity (12/31/17)	0.85 years

Combined Portfolio Earnings (excludes earnings on LGIP and deposit accounts)	
Cash Basis Earnings for Quarter	$560,464
Accrual Basis Earnings for Quarter	$698,171

Credit Quality Distribution

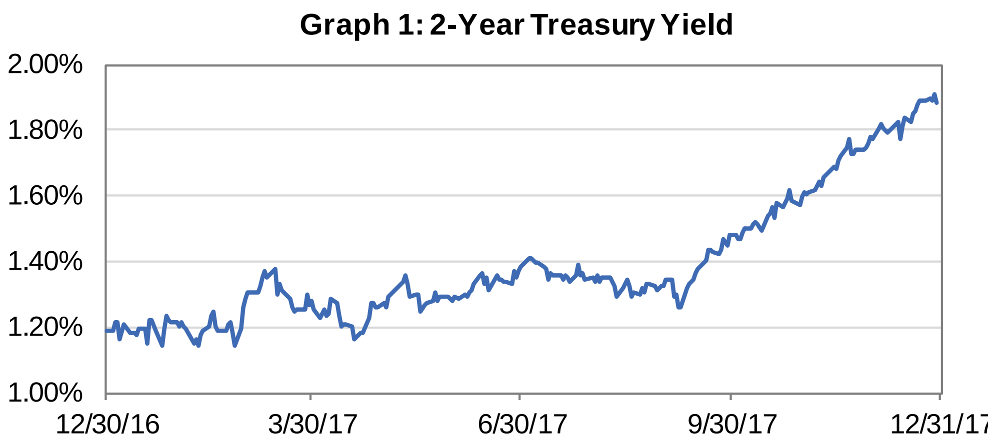


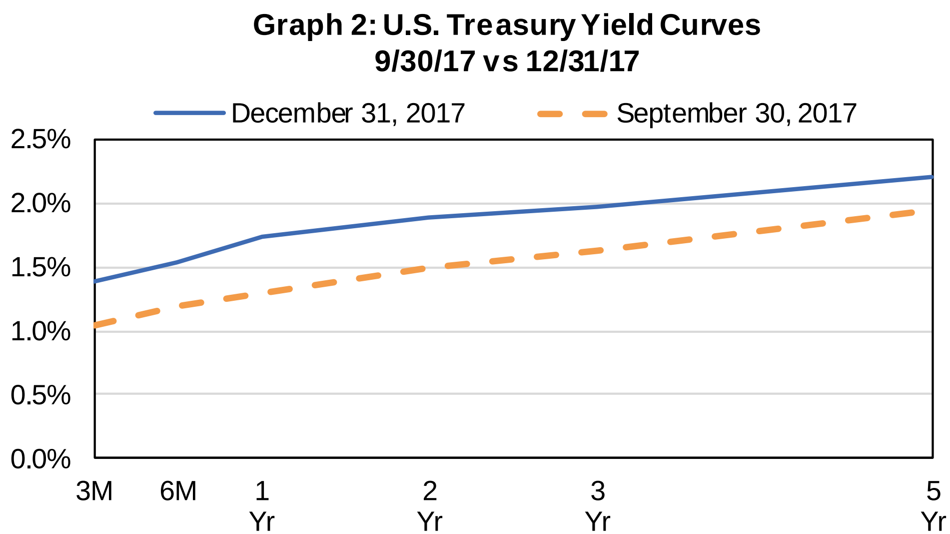
Combined Portfolio Maturity Distribution[3]



1. *Values as of December 31, 2017 including accrued interest. Market value includes the Long Term, Short-Term, Streets & Bridges, and Police Facility Portfolios.*
2. *Ratings by Standard & Poor's (S&P). Securities rated A by S&P are rated AA- or the equivalent or better by at least one nationally recognized statistical rating organization and in compliance with the City's investment policy and Oregon Revised Statutes.*
3. *Callable securities are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.*

Interest Rate Environment





Source: Bloomberg

- **Graph 1:** Graph 1 plots the 2-year U.S. Treasury Yield from December 31, 2016, to December 31, 2017.
  - The 2-year Treasury note yield ended the most recent quarter at 1.89%, moving 40 basis points (0.40%) higher over the quarter.
  - Yields increased in anticipation of and in response to another rate hike by the Federal Reserve and the passage of the largest overhaul of the U.S. tax system in more than 30 years.

- **Graph 2:** Graph 2 plots the yields of U.S. Treasuries at different maturities on September 30, 2017 and December 31, 2017.
  - Short-term yields (three years and under) moved notably higher over the quarter in response to the Federal Reserve's December rate hike and the expectation of further rate hikes in 2018.
  - Longer-term yields remained depressed as expectations of future growth and inflation prospects have remained muted.

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Combined Portfolio Summary[1]

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Market Value (MV)	**$353,894,603**	$290,074,561	$231,755,023	$274,416,157
Amortized Cost	**$355,430,199**	$290,771,327	$232,312,932	$274,948,149

Quarterly Summary	Quarter Ending December 31, 2017
Beginning MV	$290,074,561
Change in Cash	$64,517,103
Change in MV	($697,062)
Ending MV	**$353,894,603**

PORTFOLIO RECAP

- The portfolio is in compliance with applicable state statutes and the City's Investment Policy C-7.
- The portfolio has sufficient liquidity to cover upcoming needs, is diversified among high-quality fixed income sectors, and is of high credit quality.
- Bolstered by positive economic data in the U.S., increases in the stock market, and optimism over the future path of rate hikes by the Federal Reserve, short- and intermediate-term U.S. Treasury yields increased significantly. Rising interest rates resulted in negative total returns for many fixed-income sectors; however, on a positive note, reinvestment opportunities became more attractive.
- Federal agency yield spreads remained very narrow relative to similar-maturity Treasuries throughout the quarter. PFM generally favored U.S. Treasuries for government security allocations.
- Short-term commercial paper (CP) continued to provide attractive incremental yield benefits relative to comparable Treasuries.
- For the quarter ended December 31, 2017, the City's Long-Term portfolio and its benchmark, the Bank of America/Merrill Lynch 1-3 Year Treasury index, had negative total return performance, as unrealized market value losses overwhelmed realized earnings. However, the portfolio had strong relative performance, outperforming its benchmark by 0.15%; a significant margin. Outperformance is the result of the portfolio's diversification and PFM's active management.

1. Values as of quarter end, including accrued interest. Values include Long-Term, Short-Term, Streets & Bridges, and Police Facility portfolios.

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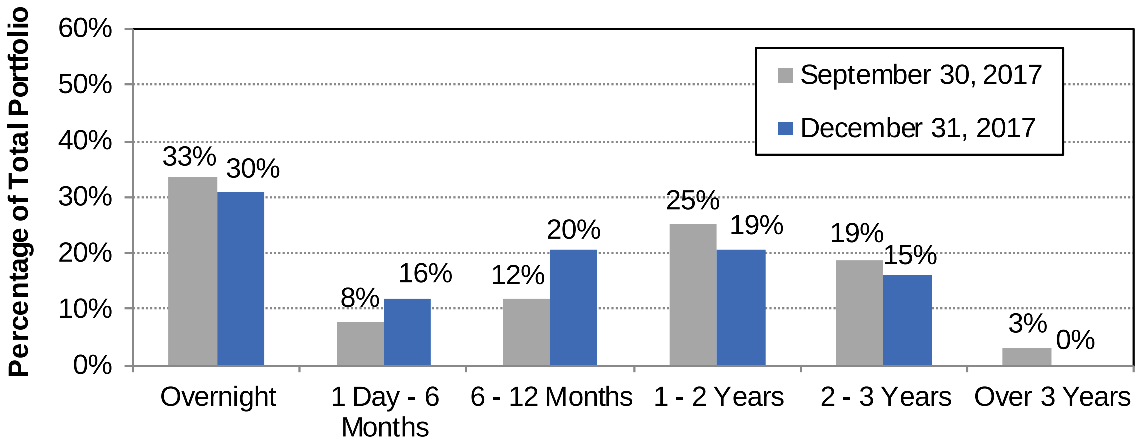
Combined Portfolio Change Over Quarter

Security Type	Change in Allocation
U.S. Treasuries	+9%
Federal Agencies	-6%
U.S. Instrumentalities	-
Commercial Paper	+2%
Corporate Notes	-2%
LGIP	-1%
Collateralized Deposit Accounts	-2%

Combined Portfolio Maturity Distribution



Portfolio and Benchmark Performance

Total Return[1,2,3,4,5]	Total Return for Quarter Ended December 31, 2017	Total Return for Past 1 Year	Total Return for Past 3 Years	Total Return Since Inception
City of Salem Long-Term Portfolio	**-0.10%**	**0.80%**	**0.72%**	**0.62%**
BofA/ML U.S. Treasury Index	-0.25%	0.42%	0.46%	0.43%

Yield Comparison[6]					
City of Salem Short-Term Portfolio	**1.60%**	**City of Salem Police Facility Bonds Portfolio**	**1.43%**	**City of Salem Streets & Bridges Portfolio**	**1.41%**
Oregon LGIP	1.70%	Oregon LGIP	1.70%	Oregon LGIP	1.70%

1. Performance on trade date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets. Long-Term Portfolio benchmark was the BAML 0-3 Year U.S. Treasury index from inception through 6/30/2016 and the BAML 1-3 Year Treasury index beginning 6/30/16.
3. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis.
4. Inception date is December 31, 2012.
5. Excludes Streets & Bridges, Police Facility, and Short-Term Portfolio as well as LGIP and bank balances in the performance and duration calculations.
6. Yield at Cost for the City's Short-Term, Policy Facility, Streets and Bridges portfolios as of quarter end and Oregon LGIP rate as of quarter end.

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Combined Portfolio Transactions[1]

Trade Date	Trade Type	Security	Maturity Date	Broker	Par Value	Yield to Maturity	S&P Rating
10/2/17	Maturity	BNP Paribas NY Branch Commercial Paper	10/2/2017	Maturity	1,000,000	-	A-1
10/3/17	Buy	BNP Paribas NY Branch Commercial Paper	3/30/2018	BNP Paribas	1,000,000	1.42%	A-1
10/31/17	Maturity	U.S. Treasury Notes	10/31/2017	Maturity	1,070,000	-	AA+
11/7/17	Buy	Toyota Motor Credit Corp Commercial Paper	2/5/2018	Toyota Motor Corp	1,070,000	1.32%	A-1+
11/16/17	Buy	Bank of Tokyo Mitsubishi UFJ Commercial Paper	5/21/2018	Bank of Toyota Mitsubishi (Direct)	3,500,000	1.62%	A-1
11/16/17	Buy	BNP Paribas NY Branch Commercial Paper	5/21/2018	BNP Paribas	3,500,000	1.65%	A-1
11/16/17	Buy	Toyota Motor Credit Corp Commercial Paper	5/14/2018	Toyota Motor Corp	4,000,000	1.56%	A-1+
11/22/17	Buy	U.S. Treasury Notes	9/15/2018	Merrill Lynch (Bank of America)	5,500,000	1.61%	AA+
11/22/17	Buy	U.S. Treasury Notes	10/15/2018	Merrill Lynch (Bank of America)	5,500,000	1.62%	AA+
11/30/17	Buy	U.S. Treasury Notes	9/15/2018	JP Morgan Securities, Inc.	18,000,000	1.61%	AA+
11/30/17	Buy	U.S. Treasury Notes	10/31/2018	Merrill Lynch (Bank of America)	18,000,000	1.65%	AA+

1. Does not include transactions in the LGIP and bank accounts

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Combined Portfolio Transactions[1]

Trade Date	Trade Type	Security	Maturity Date	Broker	Par Value	Yield to Maturity	S&P Rating
11/30/17	Buy	U.S. Treasury Bill	2/15/2018	Citigroup	2,630,000	1.19%	A-1+
11/30/17	Maturity	U.S. Treasury Notes	11/30/2017	Maturity	2,630,000	-	AA+
12/4/17	Maturity	Credit Agricole CIB NY Commercial Paper	12/4/2017	Maturity	2,500,000	-	A-1
12/4/17	Maturity	Credit Agricole CIB NY Commercial Paper	12/4/2017	Maturity	2,500,000	-	A-1
12/5/17	Buy	Credit Agricole CIB NY Commercial Paper	6/4/2018	Credit Agricole	2,500,000	1.71%	A-1
12/5/17	Buy	Credit Agricole CIB NY Commercial Paper	5/25/2018	Credit Agricole	2,500,000	1.65%	A-1
12/5/17	Buy	GE Capital Treasury LLC Commercial Paper	5/25/2018	GE Capital	2,000,000	1.61%	A-1
12/5/17	Maturity	American Honda Finance Commercial Paper	12/5/2017	Maturity	2,000,000	0.00%	A-1
12/20/17	Maturity	Fannie Mae Notes	12/20/2017	Maturity	255,000	0.00%	AA+

1. *Does not include transactions in the LGIP and bank accounts*

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Combined Portfolio Holdings by Maturity

Issuer	CUSIP	Par Value[1]	Maturity Date	Call Date	S&P Rating	Market Value[2]	Yield to Maturity[3]
LGIP - City	-	45,267,050	-			45,267,050	1.70%
LGIP - URA	-	42,147,042	-			42,147,042	1.70%
U.S. Bank	-	17,277,429	-			17,277,429	0.50%
Bank of Tokyo Mitsubishi NY	06538CAA9	675,000	1/10/2018		A-1	674,652	1.42%
Credit Agricole NY	22533UAS2	1,950,000	1/26/2018		A-1	1,947,775	1.31%
Toyota Motor Corp	89233HB52	1,070,000	2/5/2018		A-1+	1,068,330	1.30%
U.S Treasury Bill	912796NS4	2,630,000	2/15/2018		A-1+	2,626,021	1.17%
Exxon Mobil Corp	30231GAL6	2,500,000	3/6/2018		AA+	2,508,109	1.31%
JP Morgan Securities LLC	46640QCC3	4,750,000	3/12/2018		A-1	4,734,368	1.44%
BNP Paribals NY	09659CCW6	1,000,000	3/30/2018		A-1	995,900	1.40%
U.S. Treasury	912828UZ1	5,500,000	4/30/2018		AA+	5,491,675	1.02%
U.S. Treasury	912828UZ1	4,750,000	4/30/2018		AA+	4,742,811	1.11%
JP Morgan Securities LLC	46640QE15	1,950,000	5/1/2018		A-1	1,938,914	1.51%
Toyota Motor Corp	89233HEE0	4,000,000	5/14/2018		A-1+	3,974,824	1.54%
Berkshire Hathaway Inc	084664BW0	3,000,000	5/15/2018		AA	2,998,128	1.07%
Bank of Tokyo Mitsubishi NY	06538CEM9	3,500,000	5/21/2018		A-1	3,475,658	1.59%
BNP Paribals NY	09659CEM6	3,500,000	5/21/2018		A-1	3,476,074	1.62%
Bank of Tokyo Mitsubishi NY	06538CER8	2,500,000	5/25/2018		A-1	2,482,075	1.55%
Bank of Tokyo Mitsubishi NY	06538CER8	1,950,000	5/25/2018		A-1	1,936,019	1.57%
BNP Paribals NY	09659CER5	1,950,000	5/25/2018		A-1	1,936,256	1.52%
Credit Agricole NY	22533UER0	2,500,000	5/25/2018		A-1	2,481,983	1.62%
GE Capital Treasury CP	36164KER8	2,000,000	5/25/2018		A-1	1,986,402	1.59%
BNP Paribals NY	09659CEW4	2,500,000	5/30/2018		A-1	2,481,685	1.51%
Credit Agricole NY	22533UF40	2,500,000	6/4/2018		A-1	2,480,605	1.68%
Federal Home Loan Bank	3130A8PK3	4,125,000	8/7/2018		AA+	4,109,824	0.73%

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Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value[1]	Maturity Date	Call Date	S&P Rating[4]	Market Value[2]	Yield to Maturity[3]
Federal Home Loan Bank	3130A8PK3	750,000	8/7/2018		AA+	747,241	0.81%
Berkshire Hathaway Inc	084664BY6	1,050,000	8/15/2018		AA	1,058,611	1.43%
U.S. Treasury	912828L40	5,500,000	9/15/2018		AA+	5,489,767	1.61%
U.S. Treasury	912828L40	18,000,000	9/15/2018		AA+	17,966,510	1.61%
Federal Home Loan Bank	3130A9AE1	5,000,000	10/1/2018		AA+	4,977,668	0.91%
U.S. Treasury	912828L81	5,500,000	10/15/2018		AA+	5,474,651	1.62%
U.S. Treasury	912828T83	18,000,000	10/31/2018		AA+	17,874,766	1.65%
U.S. Treasury	912828WD8	3,700,000	10/31/2018		AA+	3,693,180	0.79%
Microsoft Corp	594918BF0	1,845,000	11/3/2018		AAA	1,842,289	1.33%
U.S. Treasury	912828A34	5,250,000	11/30/2018		AA+	5,230,133	0.85%
Wal-Mart Stores Inc	931142DJ9	1,050,000	12/15/2018		AA	1,051,129	1.31%
U.S. Treasury	912828N63	2,195,000	1/15/2019		AA+	2,190,459	1.04%
Wells Fargo & Co	94974BFQ8	2,500,000	1/15/2019		A	2,528,797	1.31%
Federal National Mortgage Association	3135G0J53	5,000,000	2/26/2019		AA+	4,970,096	0.97%
Exxon Mobil Corp	30231GAP7	1,050,000	3/1/2019		AA+	1,053,523	1.47%
Federal Home Loan Mortgage Corporation	3137EADZ9	5,000,000	4/15/2019		AA+	4,966,110	0.96%
U.S. Treasury	912828D23	5,000,000	4/30/2019		AA+	4,998,486	0.91%
Inter-American Development Bank	458182DX7	1,750,000	5/13/2019		AAA	1,730,168	1.10%
Chevron Corp	166764BH2	2,000,000	5/16/2019		AA-	1,992,475	1.56%
Toyota Motor Credit Corp	89236TDE2	2,750,000	5/20/2019		AA-	2,729,549	1.45%
Federal Home Loan Bank	3130ABF92	2,390,000	5/28/2019		AA+	2,376,756	1.31%
Coca-Cola Co	191216BV1	1,335,000	5/30/2019		AA-	1,325,393	1.40%
Federal Home Loan Bank	3130A8DB6	5,000,000	6/21/2019		AA+	4,947,883	0.79%

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Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value[1]	Maturity Date	Call Date	S&P Rating	Market Value[2]	Yield to Maturity[3]
Federal Home Loan Bank	3130A8DB6	2,365,000	6/21/2019		AA+	2,340,348	1.31%
Federal Home Loan Mortgage Corporation	3137EAEB1	5,000,000	7/19/2019		AA+	4,941,508	0.97%
Federal Home Loan Mortgage Corporation	3137EAEB1	2,525,000	7/19/2019		AA+	2,495,461	1.34%
Federal National Mortgage Association	3135G0N33	3,200,000	8/2/2019		AA+	3,160,302	0.90%
Federal Home Loan Bank	3130A8Y72	3,200,000	8/5/2019		AA+	3,159,320	0.91%
Federal Home Loan Mortgage Corporation	3137EAEH8	1,940,000	8/15/2019		AA+	1,935,357	1.36%
Federal National Mortgage Association	3135G0P49	625,000	8/28/2019		AA+	617,916	1.37%
African Development Bank	00828EBQ1	975,000	9/20/2019		AAA	963,088	1.16%
Cisco Systems Inc	17275RBG6	1,050,000	9/20/2019		AA-	1,043,171	1.61%
Federal Home Loan Bank	3130A9EP2	3,450,000	9/26/2019		AA+	3,406,250	1.02%
Federal Home Loan Bank	3130A9EP2	1,525,000	9/26/2019		AA+	1,505,661	1.41%
Federal Home Loan Mortgage Corporation	3137EADM8	2,570,000	10/2/2019		AA+	2,547,336	1.43%
Chevron Corp	166764AN0	1,050,000	11/15/2019		AA-	1,055,178	1.64%
Federal Home Loan Bank	3130AA3R7	1,515,000	11/15/2019		AA+	1,502,469	1.43%
U.S. Treasury	912828G95	2,550,000	12/31/2019		AA+	2,536,768	1.38%
Federal Home Loan Mortgage Corporation	3137EAEE5	7,500,000	1/17/2020		AA+	7,480,285	1.48%
Federal Home Loan Mortgage Corporation	3137EAEE5	6,270,000	1/17/2020		AA+	6,253,518	1.45%
Apple Inc Global Notes	037833AX8	1,050,000	2/7/2020		AA+	1,044,902	1.65%
Microsoft Corp	594918AY0	1,050,000	2/12/2020		AAA	1,053,431	1.61%
Federal National Mortgage Association	3135G0T29	6,000,000	2/28/2020		AA+	5,968,488	1.55%
U.S. Treasury	912828UV0	2,930,000	3/31/2020		AA+	2,888,407	1.71%
Federal Home Loan Mortgage Corporation	3137EAEF2	2,500,000	4/20/2020		AA+	2,471,442	1.47%
U.S. Treasury	912828VA5	2,500,000	4/30/2020		AA+	2,460,187	1.49%

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Combined Portfolio Holdings by Maturity (continued)

Issuer	CUSIP	Par Value[1]	Maturity Date	Call Date	S&P Rating	Market Value[2]	Yield to Maturity[3]
Apple Inc Global Notes	037833BD1	2,500,000	5/6/2020		AA+	2,495,509	1.78%
U.S. Treasury	912828XE5	2,500,000	5/31/2020		AA+	2,478,687	1.43%
Federal National Mortgage Association	3135G0D75	2,480,000	6/22/2020		AA+	2,451,505	1.45%
U.S. Treasury	912828XH8	1,100,000	6/30/2020		AA+	1,091,928	1.53%
Federal National Mortgage Association	3135G0T60	2,480,000	7/30/2020		AA+	2,464,822	1.50%
3M Company	88579YAQ4	2,500,000	8/7/2020		AA-	2,509,495	1.69%
Federal Home Loan Bank	3130ACE26	1,400,000	9/28/2020		AA+	1,380,577	1.48%
U.S. Treasury	912828L65	1,295,000	9/30/2020		AA+	1,279,821	1.48%
U.S. Treasury	912828L99	6,500,000	10/31/2020		AA+	6,410,443	1.73%
U.S. Treasury	912828N48	2,060,000	12/31/2020		AA+	2,045,776	1.53%
Total Value PFM Managed Funds		$250,570,000				**$249,203,082**	**1.36%**
LGIP		$87,414,091				**$87,414,091**	**1.70%**
Bank Balances		$17,277,429				**$17,277,429**	**0.50%**
Total Value All Funds		$355,261,520				**$353,894,603**	**1.40%**

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