

# Q1 FY2020

## George H. Clark Memorial Scholarship Fund Quarterly Investment Report September 30, 2019



Office of the City Treasurer - City of Sacramento

John Colville, City Treasurer

Q1 FY2020

## **INTRODUCTION**

In 1951 the George H. Clark Memorial Scholarship was established. In accordance with a will established in 1921, the trustees are to consist of the City Manager, City of Sacramento, and the Superintendent of Sacramento City Unified School District with the highest student populous. On February 2, 2001, the City Treasurer received a contribution of \$627,618 in Memorial Cash Account portfolio.

The City of Sacramento George H. Clark Memorial Scholarship Fund will help deserving senior high school students in their pursuit of a college education that will make them valuable members of the community. Four (4) scholarships per year (\$5,000) each or \$20,000 will be awarded to senior high school students to help provide for a college education. The committee selects the annual recipients from a group of eligible students submitted by SCUSD based on pre-determined achievement criteria.

To honor Mr. Clark, the committee recommends that the awards be presented by the Mayor at a City Council meeting.

## **STRATEGY**

- Adhere to prudent investment practices to provide for the preservation and growth of principal.
- The City maintains two cash accounts. One cash account (Operating Cash Account) receives interest and dividend income to accrue for scholarship payments. Mutual fund and equity capital gains are placed in the second cash account (Memorial Investment Cash Account) to accumulate until scholarship funds are being paid from the Operating Cash Account. If a shortfall of cash exists in the Operating Cash Account, funds from the Memorial Investment Cash Account will be used to secure the payments. Excess cash in the Memorial Investment Cash Account will be re-allocated as per investment strategy. The City Treasurer will determine the asset allocation deemed prudent to achieve the funds objective.

## **OBJECTIVES**

- The objective of this fund is income. The committee directed the Treasurer's office to invest funds for moderate growth of principal and adequate cash flow to pay for scholarships.
- Goal is to earn a cash return per year of \$20,000 thousand dollars to pay for four (4) scholarships per year.

## MARKET OVERVIEW

### **Equities:**

US equity markets closed Q1 relatively flat, with the major indices (S&P 500 and Dow Jones) closing the quarter with gains around ~1.7-1.8%. The main market risks continued to be growth concerns and the US/China Trade war. These risks, along with conservative talk from the Fed led to a volatile August, where markets repeatedly tested the quarter's lows. However, renewed trade talks and an increased dovish tone from the Fed lifted markets in September leading to modest gains.

### **Fixed Income/Rates:**

As expected, the Fed cut rates in July and September, moving the new target rate to fall between 1.75-2.00%. Treasury yields also faced downward pressure this quarter due to the low global interest rate environment and concerns of deteriorating growth and inflation. The yield curve inverted between the 2yr – 10yr maturities in August which typically forecasts a recession, but quickly snapped out of it and ended the quarter on a positive note. (10yr treasury yield higher than the 2yr)

### **Economy:**

Economic data throughout Q1 remained moderate, with GDP coming in around 2% and the unemployment rate at 3.7%. Inflation is still below target, but consumer spending and wage growth continued to improve which kept the economy healthy as manufacturing numbers began to slip.

### **International Markets:**

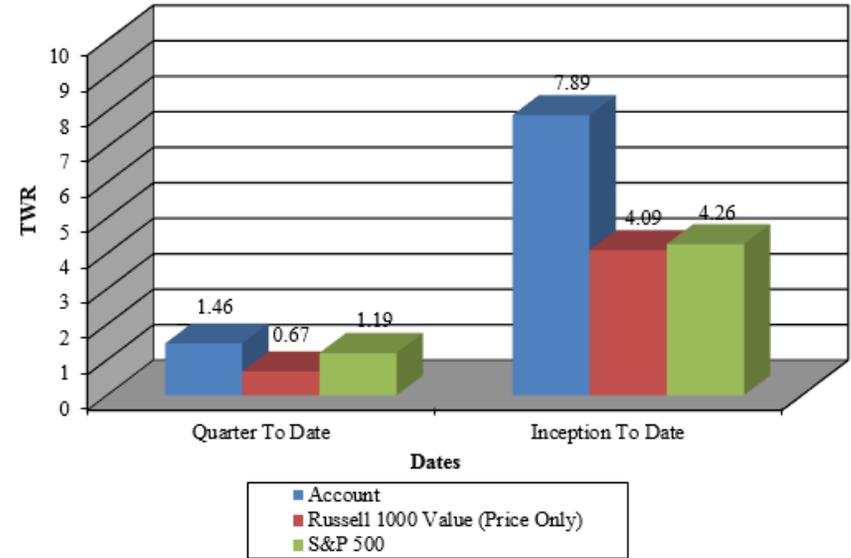
International equities continue to underperform as their economies sit on the brink of recession. Key risks to the International developed and Emerging markets is the uncertainty surrounding the US/China trade war and Brexit. The ECB announced new rounds of monetary stimulus to counteract this slowdown. The MSCI EAFE ended the quarter down ~1%, while emerging markets fared worse, as the MSCI EM index was down 4%.

### **Performance vs. Benchmark:**

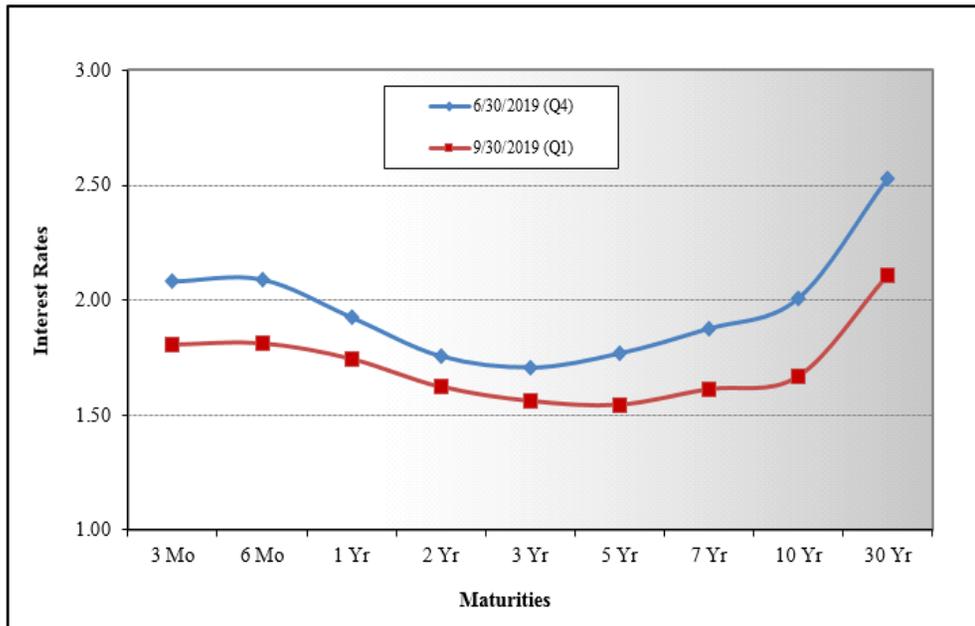
The George H. Clark Memorial Scholarship Fund had a Q1 return of 1.46%, outperforming its benchmark The Russell 1000 which had a return of .67%. Please note that these returns are based on price change only and don't consider the reinvestment of dividends, allowing for a higher quality comparison.

## Performance

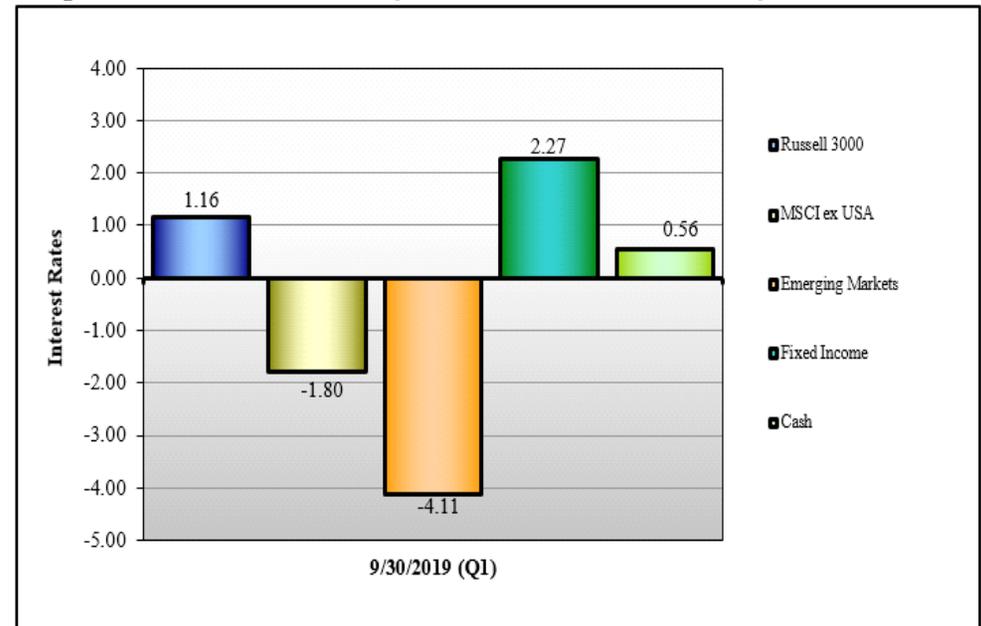
	Quarter To Date	Inception To Date
Account	1.46	7.89
Russell 1000 Value (Price Only)	0.67	4.09
S&P 500	1.19	4.26



**U.S. Treasury Yield Curve - QE 6/30/2019 (Q4) vs. QE 9/30/2019 (Q1)**



**Capital Market Returns - Quarter Ended 9/30/2019 (Q1)**



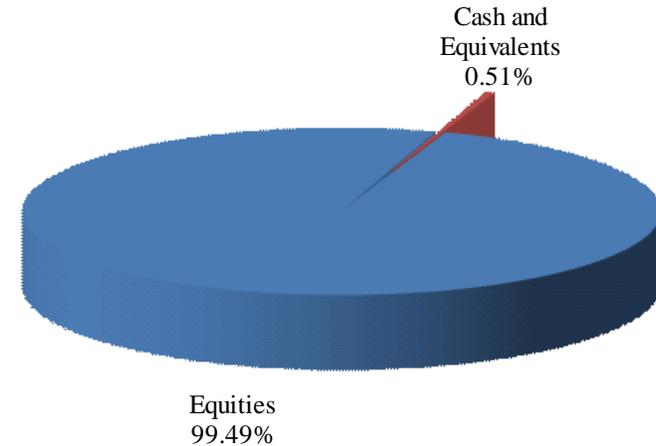
City of Sacramento  
**George H. Clark Memorial Scholarship Fund**  
 September 30, 2019

**Activity**

From 06-30-19 to 09-30-19

<b>Portfolio Value on 06-30-19</b>	<b>1,298,974</b>
Contributions	0
Withdrawals	-9,125
Realized Gains	0
Unrealized Gains	9,699
Interest	37
Dividends	9,145
<b>Portfolio Value on 09-30-19</b>	<b>1,308,731</b>

**Actual Asset Allocation**



**Operating Cash Account Activity**

From Inception to 09-30-19

	Inception to FY19	<u>FY20 QE</u> 09-30-19	Inception to FY20
<b>Beginning Balance</b>		<b>96,526</b>	
Initial Contribution	83		83
Cash Transfers In *	487,800	9,125	496,924
Interest Income **	12,786		12,786
Scholarship Payments	-340,000	-10,000	-350,000
Investment Mgt Fees	-64,143		-64,143
<b>Ending Balance</b>	<b>96,526</b>	<b>95,650</b>	<b>95,650</b>

\* Cash Transfers In = monies transferred from Memorial Investment Cash Account to Operating Cash Account to pay for scholarships and other expenses.

\*\* July to September 2019 Pool A earnings are yet to be apportioned.

**Top 10 Holdings**

Securities	Market Value	Pct.
Ishares Tr Russell 1000 Val	194,955	14.90
Select Sector Spdr Tr Sbi Cons Discr	159,927	12.22
Select Sector Spdr Tr Sbi Int-Utills	84,162	6.43
Ishares US Technology ETF	76,579	5.85
Apple Inc.	70,551	5.39
Select Sector Spdr Tr Sbi Int-Finl	70,000	5.35
Deere & Co Com	67,472	5.16
Johnson & Johnson	64,690	4.94
BP Plc Sponsored Adr	61,924	4.73
Select Sector Spdr Tr Sbi Healthcare	54,078	4.13

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**PORTFOLIO APPRAISAL**  
*George H. Clark Memorial Scholarship Fund*  
 September 30, 2019

Quantity	Security Symbol	Security	Unit Cost	Total Cost	Price	Market Value	Accrued Interest	Market Value + Accrd. Int.	Pct. Assets	Cur. Yield	S & P	Moody	Bond Status	Call Put Date
<b>CASH AND EQUIVALENTS</b>														
	divacc	Dividend Accrual		1,640		1,640		1,640	0.13	4.00				
	miscintrec	Misc Interest Receivable		2		2		2	0.00	1.73				
	PoolA	Pool A Cash		4,944		4,944		4,944	0.38	2.43				
	intreceiv	Pool A Interest Receivable		32		32		32	0.00	2.43				
				<u>6,617</u>		<u>6,617</u>		<u>6,617</u>	<u>0.51</u>	<u>2.82</u>				
<b>COMMON STOCK</b>														
<b>INDUSTRIALS</b>														
400	cat	Caterpillar Inc Del Com	69.20	27,679	126.31	50,524		50,524	3.86	3.26	B+			
400	de	Deere & Co Com	59.47	23,789	168.68	67,472		67,472	5.16	1.80	B+			
185	hon	Honeywell	127.59	23,605	169.20	31,302		31,302	2.39	2.13	A-			
150	iyt	Ishares Tr Transp Ave Idx	77.22	11,583	186.14	27,921		27,921	2.13	1.31				
225	unp	Union Pac Corp Com	110.02	24,754	161.98	36,445		36,445	2.78	2.18	A			
				<u>111,410</u>		<u>213,664</u>		<u>213,664</u>	<u>16.33</u>	<u>2.19</u>				
<b>COMMUNICATION SERVICES</b>														
700	t	At&t Inc	39.82	27,874	37.84	26,488		26,488	2.02	5.39	B			
700	vz	Verizon Communications Inc	38.05	26,634	60.36	42,252		42,252	3.23	4.08	B			
				<u>54,508</u>		<u>68,740</u>		<u>68,740</u>	<u>5.25</u>	<u>4.58</u>				
<b>CONSUMER DISCRETIONARY</b>														
1,325	xly	Select Sector Spdr Tr Sbi Cons Discr	33.50	44,387	120.70	159,927		159,927	12.22	1.30				
<b>CONSUMER STAPLES</b>														
650	mo	Altria Group Inc	26.65	17,324	40.90	26,585		26,585	2.03	8.22	A-			
600	ko	Coca Cola Co Com	32.30	19,383	54.44	32,664		32,664	2.50	2.94	B+			
280	pg	Procter & Gamble Co	88.22	24,702	124.38	34,826		34,826	2.66	2.40	A			
				<u>61,408</u>		<u>94,075</u>		<u>94,075</u>	<u>7.19</u>	<u>4.23</u>				
<b>ENERGY</b>														
340	cvx	Chevron Corporation	118.00	40,119	118.60	40,324		40,324	3.08	4.01	B			
<b>FINANCIAL</b>														
2,200	nly	Annaly Cap Mgmt Inc Com	14.91	32,805	8.80	19,360		19,360	1.48	12.50	B-			
2,500	xlf	Select Sector Spdr Tr Sbi Int-Finl	14.83	37,081	28.00	70,000		70,000	5.35	2.01				
				<u>69,886</u>		<u>89,360</u>		<u>89,360</u>	<u>6.83</u>	<u>4.28</u>				
<b>HEALTHCARE</b>														
500	jnj	Johnson & Johnson	61.71	30,855	129.38	64,690		64,690	4.94	2.94	A-			
600	xlv	Select Sector Spdr Tr Sbi Healthcare	31.93	19,161	90.13	54,078		54,078	4.13	1.66				
				<u>50,016</u>		<u>118,768</u>		<u>118,768</u>	<u>9.08</u>	<u>2.36</u>				
<b>INFORMATION TECHNOLOGY</b>														
315	aapl	Apple Inc.	90.82	28,610	223.97	70,551		70,551	5.39	1.38	B+			

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**PORTFOLIO APPRAISAL**  
*George H. Clark Memorial Scholarship Fund*  
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<u>Quantity</u>	<u>Security Symbol</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Total Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Accrued Interest</u>	<u>Market Value + Accrd. Int.</u>	<u>Pct. Assets</u>	<u>Cur. Yield</u>	<u>S &amp; P</u>	<u>Moody</u>	<u>Bond Status</u>	<u>Call Put Date</u>
200	ibm	International Bus Mach	152.38	30,476	145.42	29,084		29,084	2.22	4.46	A-			
375	iyw	Ishares US Technology ETF	58.52	21,946	204.21	76,579		76,579	5.85	0.80				
				81,031		176,213		176,213	13.46	1.64				
<b>UTILITIES</b>														
1,300	xlu	Select Sector Spdr Tr Sbi Int-Utills	42.96	55,842	64.74	84,162		84,162	6.43	2.88				
<b>PASSIVE INDEX</b>														
1,520	iwd	Ishares Tr Russell 1000 Val	126.59	192,415	128.26	194,955		194,955	14.90	2.35				
				761,022		1,240,190		1,240,190	94.76	2.58				
<b>AMERICAN DEPOSITORY RECEIPTS</b>														
<b>ENERGY</b>														
1,630	bp	BP Plc Sponsored Adr	38.94	63,473	37.99	61,924		61,924	4.73	6.42				
				63,473		61,924		61,924	4.73	6.42				
<b>TOTAL PORTFOLIO</b>				<b>831,113</b>		<b>1,308,731</b>	<b>0</b>	<b>1,308,731</b>	<b>100.00</b>	<b>2.77</b>				

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**PURCHASE/SALE AND GAIN/LOSS**  
***George H. Clark Memorial Scholarship Fund***  
*From 07-01-19 To 09-30-19*

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>	<u>Original Price</u>	<u>Gain/Loss</u>
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No transactions within the specified date range were found!