

**CITY OF SANIBEL TREASURY**

**INVESTMENT PERFORMANCE**

**PERIOD ENDING**

**DECEMBER 31, 2014**

The following investment information was prepared by BCA, relying upon data from statements provided by the plan custodian and/or investment manager(s).  
BCA reviews transactions provided by the custodian and uses reasonable care to ensure the accuracy of the data contained herein.  
However, BCA cannot guarantee the accuracy of the custodian's statement.



## City of Sanibel Treasury BCA Market Perspective ©

### Oil Freefall

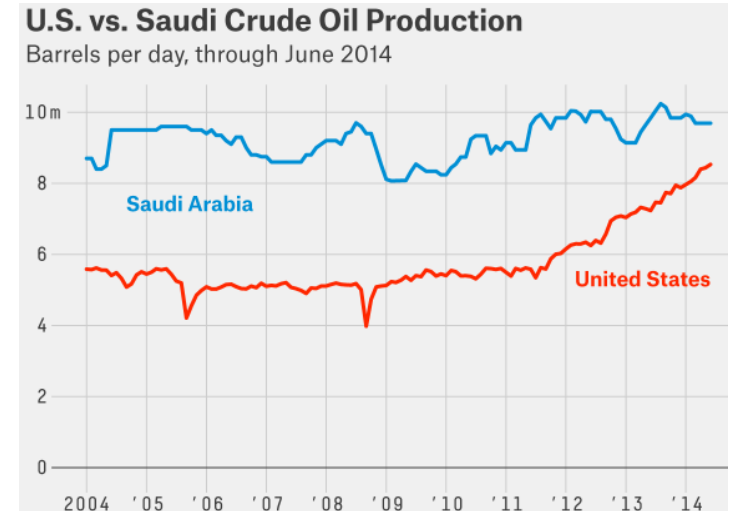
January 2015

Since June 20<sup>th</sup>, when oil peaked at \$107.95 a barrel, West Texas Intermediate (WTI) has plummeted, resulting in the price of oil dropping to a low of \$44.20. That's more than a 59% drop over the past 6 months. Drastic moves in the price of oil are not an anomaly; in fact it's happened 6 times since 1980: 1987, 1991, 1999, 2002, 2009, and 2014.<sup>1</sup> So what is causing this free fall in the price of oil? Two words: supply and demand. Currently, the world is producing about 1.8 million barrels of oil in excess of the current demand.<sup>2</sup>

From the supply side, the shale boom in the U.S. is a key contributor to this glut in oil. With prices of crude hovering around \$100 per barrel and new drilling techniques making extraction more cost efficient, it became profitable for companies to drill for oil in hard-to-drill places, specifically in shale areas throughout North Dakota and Texas and in the thick oil sands throughout Alberta, Canada. Since 2008, the U.S. has added 4 million barrels per day of crude to the global market, significant as a percentage, since global crude production is around 93 million barrels per day. Up until this year, the growth in U.S. production was almost completely offset by the reduction of 3 million barrels per day in production out of areas like Iran, Libya, and Iraq.

From the demand side, a slowing global economy has led to lower demand for oil in Asia and Europe, especially with the anticipated decline of growth rates in countries like China and Germany. In 2014, China's GDP grew +7.4%, the slowest since 1990. More broadly, oil demand has simply been flat. Governments and individuals have become much more cognizant of the impact of fossil fuels on the environment, and are seeking to reduce their carbon footprint on the Earth. Gasoline consumption has fallen in the U.S. as car manufacturers have not only begun making cars that are much more fuel-efficient, but also vehicles that run without the need of gasoline at all, for example Tesla.

Interestingly, four out of the five times crude oil has dropped by 50% or more in a six month window, the S&P 500 has been up six months later, averaging +3.7% for that period. All five times, WTI rebounded in the subsequent six month period, averaging a +52% recovery.<sup>2</sup> Not to mention, the average price per gallon for consumers across America is trickling down to \$2.00, with several states already seeing lower prices. The average price per gallon in the U.S. sits at \$2.12, down 46 cents in the past month, and down \$1.01 from this time last year.<sup>3</sup> That means the U.S. consumer is saving around \$750 at the pump per year, which is a potential boost to the economy as that cash goes right back into Americans wallets.



<sup>1</sup> CNBC.com "Here's what happens to stocks when oil drops 50%"

<sup>2</sup> Bloomberg.com "Oil Recovery Seen by Gulf Producers as Slump Spurs Demand"

<sup>3</sup> USAToday.com "National gas prices to soon fall below \$2"

**City of Sanibel Treasury  
Total Fund  
Investment Policy Review  
December 31, 2014**

	YES	NO
All investments of the fund are authorized within the current Investment Policy Statement.	✓	
Prime commercial paper of a US corporation, finance company or banking institution is rated at least P-1 by Moody's or at least A-1 by S&P and is stated to mature in not more than 270 days.	✓	
Bonds or other debt securities issued or guaranteed by a corporation organized under the laws of the US or the District of Columbia have an investment grade rating of A or better by S&P or Moody's.	✓	
<b>Operating Account:</b>		
Investments are limited to demand deposits, mm funds and other short term securities of the highest quality.	✓	
<b>Reserves Account:</b>		
Investments are limited to securities with maturities not exceeding 24 months.	✓	
The average maturity does not exceed one year.	✓	
No more than 10% is invested in corporate bonds with a minimum rating of A by S&P	✓	
No more than 2% is invested in corporate bonds with any one issuer.	✓	
<b>Surplus Account:</b>		
Investments maximum maturities do not exceed 5 years.	✓	
The average maturity does not exceed 3 years.	✓	
No more than 15% is invested in corporate bonds with a minimum rating of A by S&P.	✓	
No more than 2% is invested in corporate bonds with any one issuer.	✓	



**City of Sanibel Treasury  
Total Fund  
Asset Maturity Ranges and Projected Income  
December 31, 2014**

<b>Portfolio</b>	<b>Principal Cost Value*</b>	<b>Yield to Maturity on Amortized Cost (Gross of Fees)</b>	<b>Projected Annual Income</b>
Operating (0-1 yr)	\$4,776,006.52	0.7%	\$33,432
Reserves (0-2 yr)	\$6,488,403.86	0.9%	\$58,396
Surplus (3-5 yr)	\$5,429,805.00	1.8%	\$97,736
<b>Total</b>	<b>\$16,694,215.38</b>	<b>1.1%</b>	<b>\$189,564</b>
<b>Less Projected Custody and Investment Management Fees @ 0.175% of Market Value</b>			<b>(29,137)</b>
<b>Projected Net Relationship Annual Income</b>			<b>\$160,427</b>

\*Principal Cost Value is calculated by taking the Total Portfolio Cost Value from the custodial statement and subtracting accrued income.

Source: Integrity Fixed Income Management



**City of Sanibel Treasury  
Total Fund  
Investment Summary  
December 31, 2014**

- For the quarter, the combined accounts earned \$32K or +0.2%.
  - For the 12-month period, the combined accounts earned \$289K or +1.8%. For the trailing three-year period, the investment program earned \$689K (averaging +1.3% per year).
  - Yield to maturity gross of fees:
    - Operating      0.7%
    - Reserve        0.9%
    - Surplus        1.8%
- Projected net annual income: \$189,564



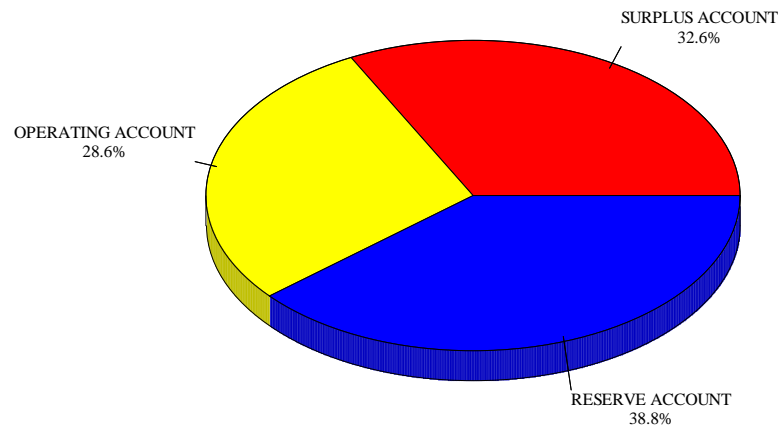
**City of Sanibel Treasury**  
**Total Fund**  
**Gross Opportunity Gains & Loss Report**  
**December 31, 2011 Through December 31, 2014**

	<u>Quarter To Date</u>	<u>One Year</u>	<u>Two Years</u>	<u>Three Years</u>
<b>BEGINNING MKT VALUE</b>	<b>16,617,657</b>	<b>16,360,986</b>	<b>16,382,683</b>	<b>21,312,063</b>
<b>NET CONTRIBUTIONS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,351,200)</b>
<b>INVESTMENT EARNINGS</b>	<b>32,140</b>	<b>288,811</b>	<b>267,114</b>	<b>688,934</b>
<b>ENDING MKT VALUE</b>	<b>16,649,797</b>	<b>16,649,797</b>	<b>16,649,797</b>	<b>16,649,797</b>
<b>GROSS TIME WEIGHTED RETURN</b>	<b>0.19</b>	<b>1.77</b>	<b>0.81</b>	<b>1.25</b>



**City of Sanibel Treasury**  
**Total Fund**  
**Asset Allocation**

TOTAL MARKET VALUE  
AS OF DECEMBER 31, 2014  
\$ 16,649,797



	VALUE	PERCENT
RESERVE ACCOUNT	6,460,285	38.80
SURPLUS ACCOUNT	5,420,528	32.56
OPERATING ACCOUNT	4,768,984	28.64



**City of Sanibel Treasury**  
**Total Fund**  
**December 31, 2014**  
**Gross of Fees**

Name	Market Values	QTR ROR	1 Year ROR	2 Year ROR	3 Year ROR
<b>TOTAL FUND</b>					
Operating Account	4,768,984	0.1%	0.6%	0.7%	0.8%
ML 0-3M TBil		0.0%	0.0%	0.0%	0.0%
Reserve Account	6,460,285	0.1%	0.8%	0.8%	0.9%
ML US Treas 0-1 Yr		0.0%	0.1%	0.1%	0.2%
Surplus Account	5,420,528	0.4%	2.7%	1.7%	2.0%
ML US Treas 3-5 Yr		0.9%	2.1%	0.6%	0.9%
<b>TOTAL:</b>	<b>16,649,797</b>	<b>0.2%</b>	<b>1.8%</b>	<b>0.8%</b>	<b>1.2%</b>

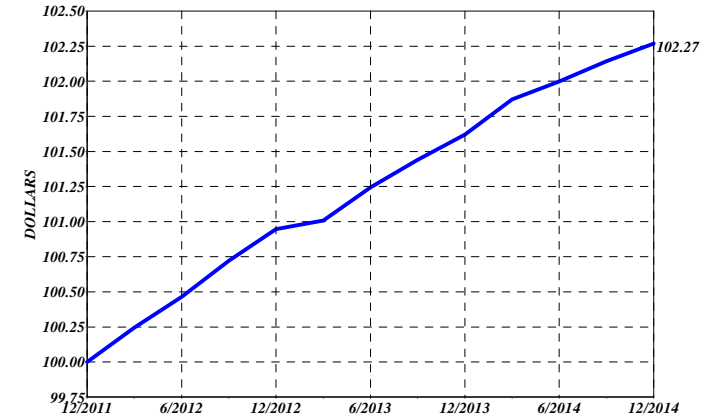




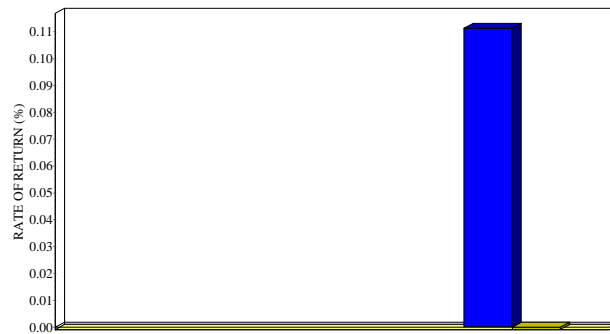
# **City of Sanibel Treasury Operating Account Performance Profile Period Ending December 31, 2014**

PERIOD	RETURN	BETA	ALPHA	STD DEV	SHARPE RATIO
ONE YEAR	0.64	-10.77	0.50	0.12	5.13
THREE YEARS	0.75	-1.71	0.64	0.14	4.89

	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	0.12	0.64	0.75
ML 0-3M TBIL	0.00	0.03	0.05
EXCESS	0.12	0.61	0.70
RISKLESS INDEX	0.00	0.04	0.07
REAL ROR	1.53	-0.07	-0.52

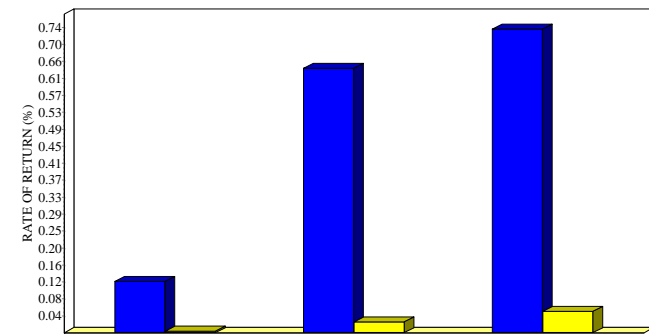


DOWN MARKET PERFORMANCE



	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	N/A	N/A	0.11
ML 0-3M TBIL	N/A	N/A	0.00
DIFFERENCE	N/A	N/A	0.11
RATIO	N/A	N/A	-113.98
DOWN PERIODS	0	0	1

UP MARKET PERFORMANCE

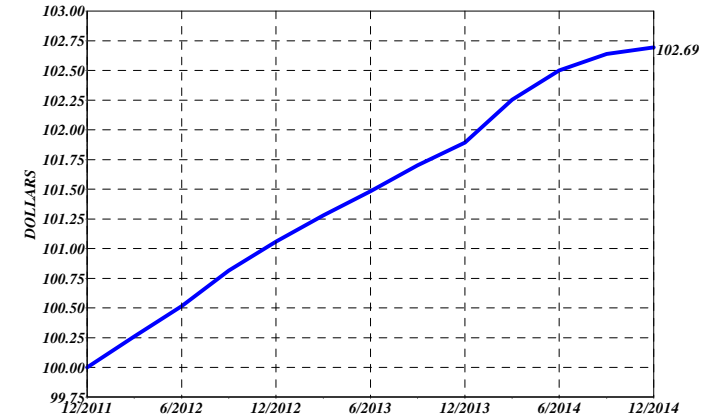


	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	0.12	0.64	0.73
ML 0-3M TBIL	0.00	0.03	0.05
DIFFERENCE	0.12	0.61	0.68
RATIO	31.05	24.54	14.25
UP PERIODS	3	12	35

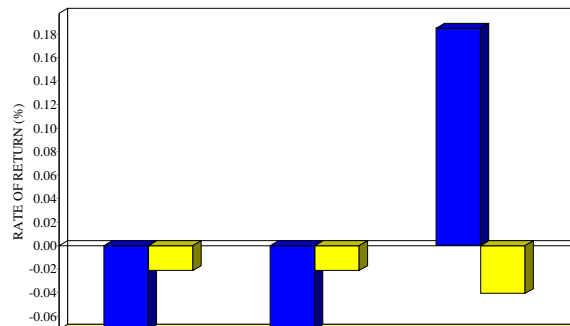
# **City of Sanibel Treasury Reserve Account Performance Profile Period Ending December 31, 2014**

PERIOD	RETURN	BETA	ALPHA	STD DEV	SHARPE RATIO
ONE YEAR	0.79	2.22	0.60	0.23	3.31
THREE YEARS	0.89	1.33	0.71	0.17	4.80

	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	0.05	0.79	0.89
ML US TREAS 0-1 YR	-0.01	0.10	0.15
EXCESS	0.07	0.68	0.74
RISKLESS INDEX	0.00	0.04	0.07
REAL ROR	1.46	0.08	-0.39

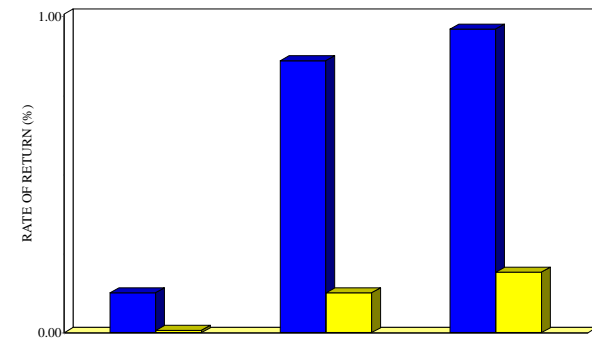


DOWN MARKET PERFORMANCE



	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	-0.07	-0.07	0.19
ML US TREAS 0-1 YR	-0.02	-0.02	-0.04
DIFFERENCE	-0.05	-0.05	0.23
RATIO	3.33	3.33	-4.51
DOWN PERIODS	2	2	5

UP MARKET PERFORMANCE

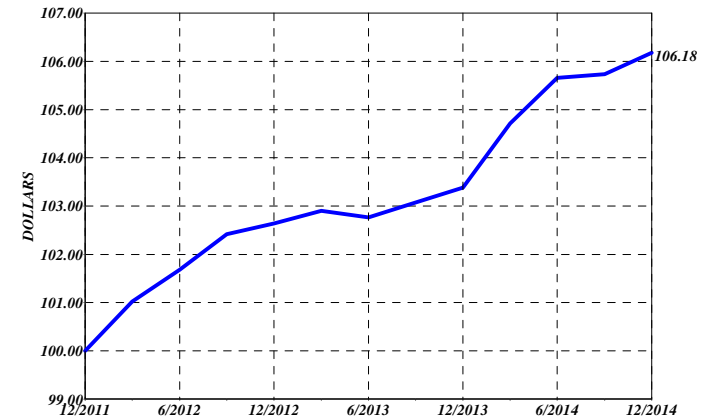


	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	0.13	0.86	0.96
ML US TREAS 0-1 YR	0.01	0.13	0.19
DIFFERENCE	0.12	0.74	0.77
RATIO	15.86	6.83	5.01
UP PERIODS	1	10	31

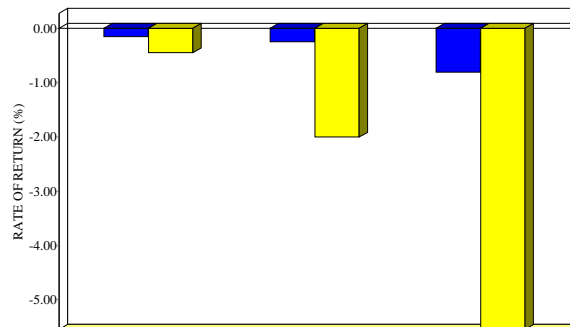
# **City of Sanibel Treasury Surplus Account Performance Profile Period Ending December 31, 2014**

PERIOD	RETURN	BETA	ALPHA	STD DEV	SHARPE RATIO
ONE YEAR	2.70	0.44	1.72	0.97	2.74
THREE YEARS	2.02	0.43	1.56	0.97	2.02

	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	0.42	2.70	2.02
ML US TREAS 3-5 YR	0.94	2.14	0.92
EXCESS	-0.51	0.57	1.09
RISKLESS INDEX	0.00	0.04	0.07
REAL ROR	1.83	1.98	0.73

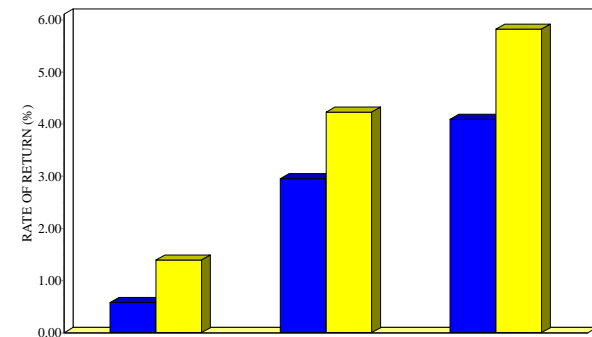


DOWN MARKET PERFORMANCE



	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	-0.16	-0.25	-0.82
ML US TREAS 3-5 YR	-0.45	-2.01	-5.55
DIFFERENCE	0.29	1.76	4.73
RATIO	0.36	0.12	0.15
DOWN PERIODS	1	5	15

UP MARKET PERFORMANCE



	QTD	ONE YEAR	THREE YEARS
TOTAL FUND	0.58	2.96	4.09
ML US TREAS 3-5 YR	1.40	4.23	5.82
DIFFERENCE	-0.81	-1.27	-1.73
RATIO	0.42	0.70	0.70
UP PERIODS	2	7	21

## City of Sanibel Treasury Glossary of Terms

- ACCRUED INTEREST- Bond interest earned since the last interest payment, but not yet received.
- ALPHA- A linear regressive constant that measures expected return independent of Beta.
- ASSET ALLOCATION- The division of portfolio asset classes in order to achieve an expected investment objective.
- BALANCED UNIVERSES - BNY Mellon Public Funds, Endowments & Foundations, Corporate peer groups, and PSN peer groups.
- BETA- A measure of portfolio sensitivity (volatility) in relation to the market, based upon past experience.
- BOND DURATION- A measure of portfolio sensitivity to interest rate risk.
- COMMINGLED FUND- An investment fund which is similar to a mutual fund in that investors are permitted to purchase and redeem units that represent ownership in a pool of securities.
- CONVERTIBLE BONDS - Hybrid securities' that offer equity returns during rising equity markets and improved down-market protection.
- CORE- An equal weighting in both growth and value stocks.
- CORRELATION COEFFICIENT- A measure of how two assets move together. The measure is bounded by +1 and -1; +1 means that the two assets move together positively, while a measure of -1 means that the assets are perfectly negatively correlated.
- GROWTH MANAGER- Generally invests in companies that have either experienced above-average growth rates and/or are expected to experience above-average growth rates in the future. Growth portfolios tend to have high price/earnings ratios and generally pay little to no dividends.
- INDEXES- Indexes are used as "independent representations of markets" (e.g., S&P 500).
- INFORMATION RATIO- Annualized excess return above the benchmark relative to the annualized tracking error.
- LARGE CAP- Generally, the term refers to a company that has a market capitalization that exceeds \$10 billion.
- MANAGER UNIVERSE- A collection of quarterly investment returns from various investment management firms that may be subdivided by style (e.g. growth, value, core).
- MID CAP- Generally, the term refers to a company that has a market capitalization between \$2 and \$10 billion.
- NCREIF - A quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.
- NCREIF ODCE - Open End Diversified Core Equity index which consists of historical and current returns from 26 open-end commingled funds pursuing core strategy. This index is capitalization weighted, time weighted and gross of fees.



## City of Sanibel Treasury

### Glossary of Terms

-NET- Investment return accounts only for manager fees.

-PROTECTING FLORIDA INVESTMENT ACT (PFIA) - SBA publishes a list of prohibited investments (scrutinized companies).

-RATE OF RETURN- The percentage change in the value of an investment in a portfolio over a specified time period, excluding contributions.

-RISK MEASURES- Measures of the investment risk level, including beta, credit, duration, standard deviation, and others that are based on current and historical data.

-R-SQUARED- Measures how closely portfolio returns and those of the market are correlated, or how much variation in the portfolio returns may be explained by the market. An R<sup>2</sup> of 40 means that 40% of the variation in a fund's price changes could be attributed to changes in the market index over the time period.

-SHARPE RATIO- The ratio of the rate of return earned above the risk-free rate to the standard deviation of the portfolio. It measures the number of units of return per unit of risk.

-SMALL CAP- Generally refers to a company with a market capitalization \$300 million to \$2 billion.

-STANDARD DEVIATION- Measure of the variability (dispersion) of historical returns around the mean. It measures how much exposure to volatility was experienced by the implementation of an investment strategy.

-SYSTEMATIC RISK- Measured by beta, it is the risk that cannot be diversified away (market risk).

- TIME WEIGHTED (TW) RETURN - A measure of the investments versus the investor. When there are no flows the TW & DOLLAR weighted (DW) returns are the same and vice versa.

-TRACKING ERROR- A measure of how closely a manager's performance tracks an index; it is the annualized standard deviation of the differences between the quarterly returns for the manager and the benchmark.

-TREYNOR RATIO- A measure of reward per unit of risk. (excess return divided by beta)

-UP AND DOWN-MARKET CAPTURE RATIO- Ratio that illustrates how a manager performed relative to the market during rising and declining market periods.

-VALUE MANAGER- Generally invests in companies that have low price-to-earnings and price-to-book ratios and/or above-average dividend yields.

