



Economic Update – Third Quarter 2019

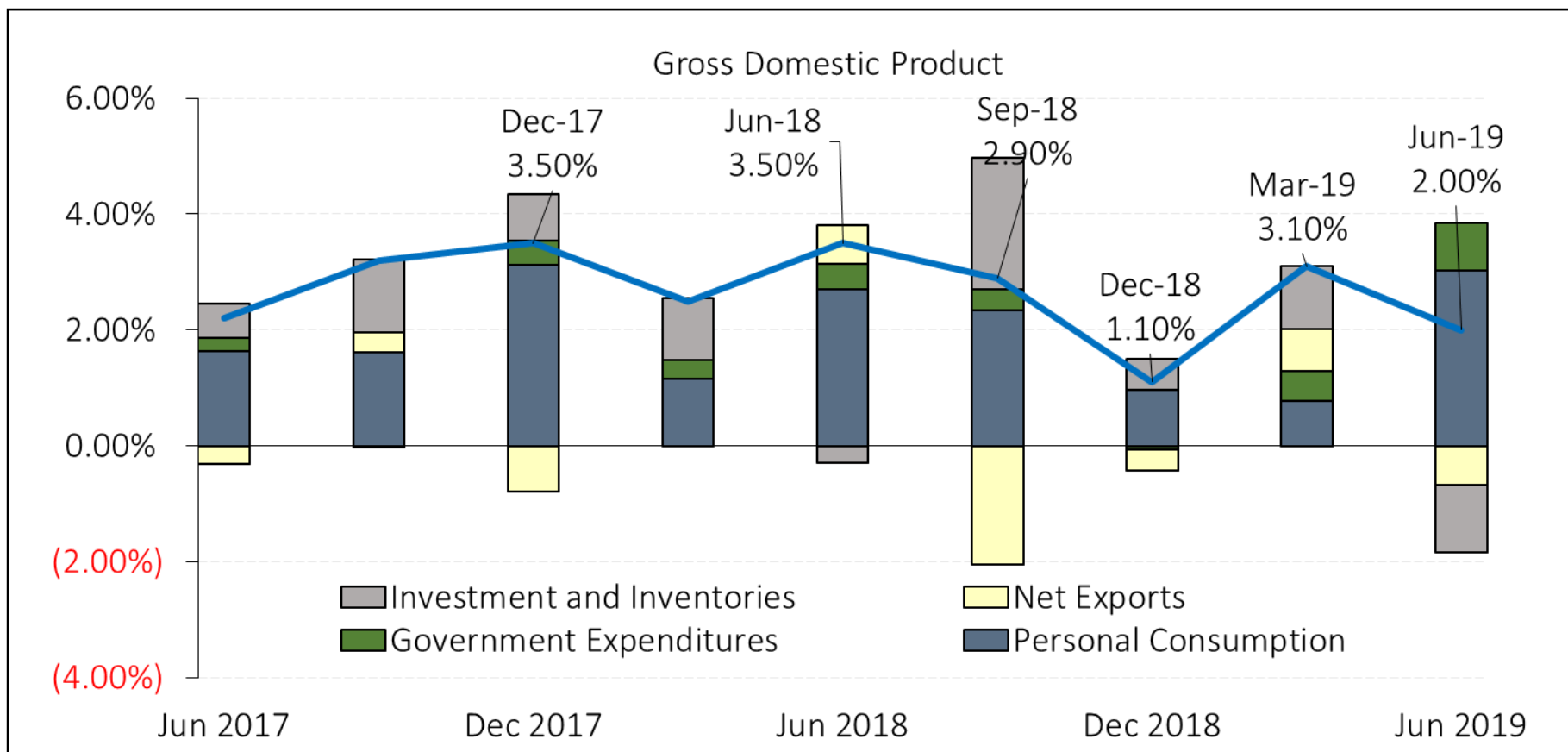


Market Update

- ❏ The FOMC is widely expected to cut the overnight rate by 0.25% to 1.50% - 1.75% during the October 30th meeting.
- ❏ Housing price growth has slowed (4.7% YOY for August) although has maintained the same upward trend as experienced since the beginning of the current expansion. As of August, the U.S. median home price of \$278k was 80% higher than the low in January 2012.
- ❏ Unemployment remains at historically low levels, currently 3.5% as of August and average monthly job growth is 161k in 2019.
- ❏ Interest rates continued the downward trend that began in late fall of 2018. Yields for maturities between two and five years have dropped more than 100 basis points (1.0%) since the peak in early November.
- ❏ Recent ISM Manufacturing and Service indicators suggest a potential slowing of the economy.
- ❏ Generally, the U.S. economy appears to be on solid ground based on current indicators.

U.S. Gross Domestic Product

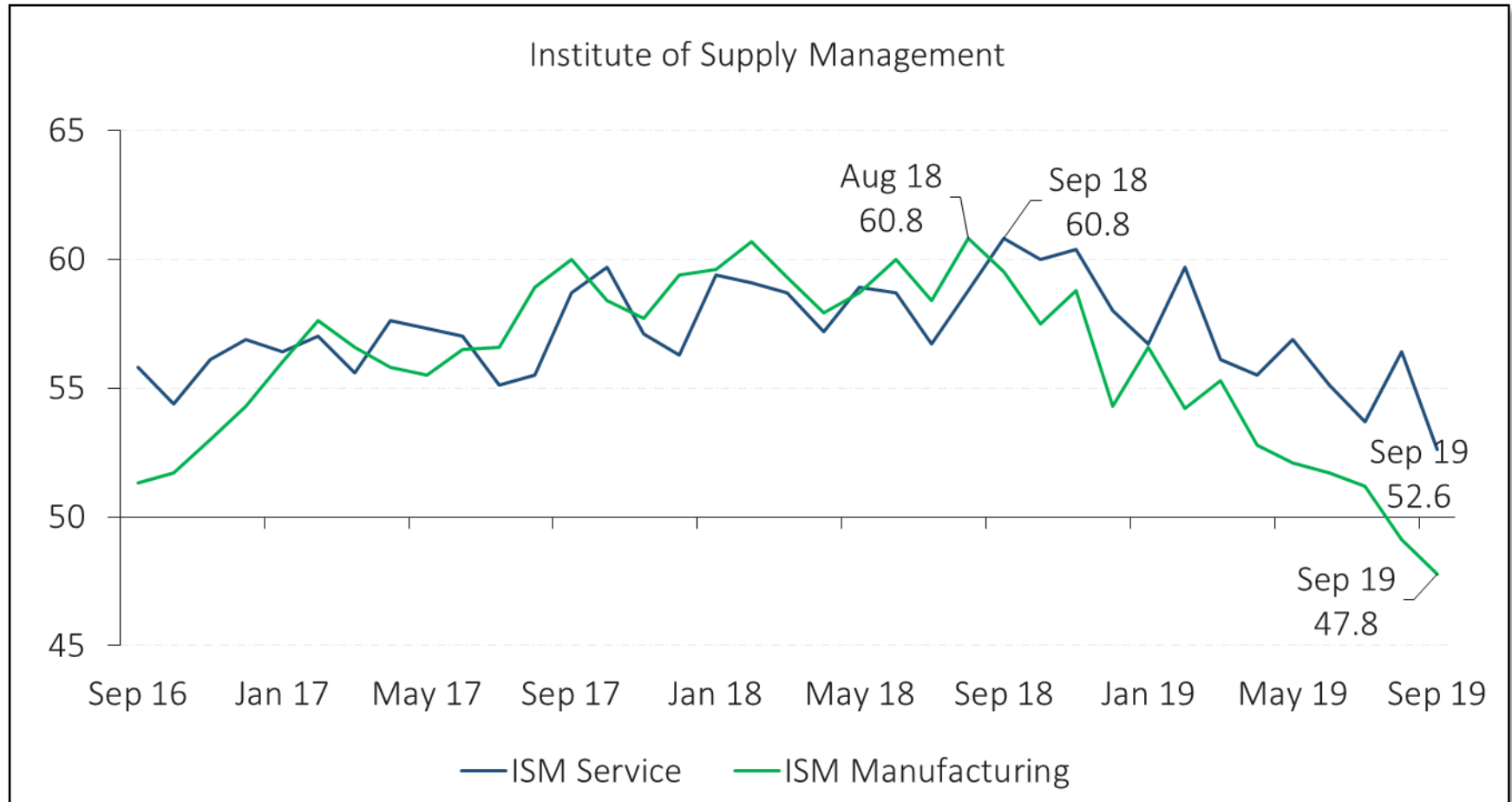
- GDP for the 2nd quarter of 2019 was supported by the largest personal consumption (3.03%) since December 2017 (3.10%) and second largest contribution in more than five years. Net exports and Business investment sectors were a drag during the quarter.



Source: Bloomberg. See additional footnotes at the end of the presentation.

Institute of Supply Management

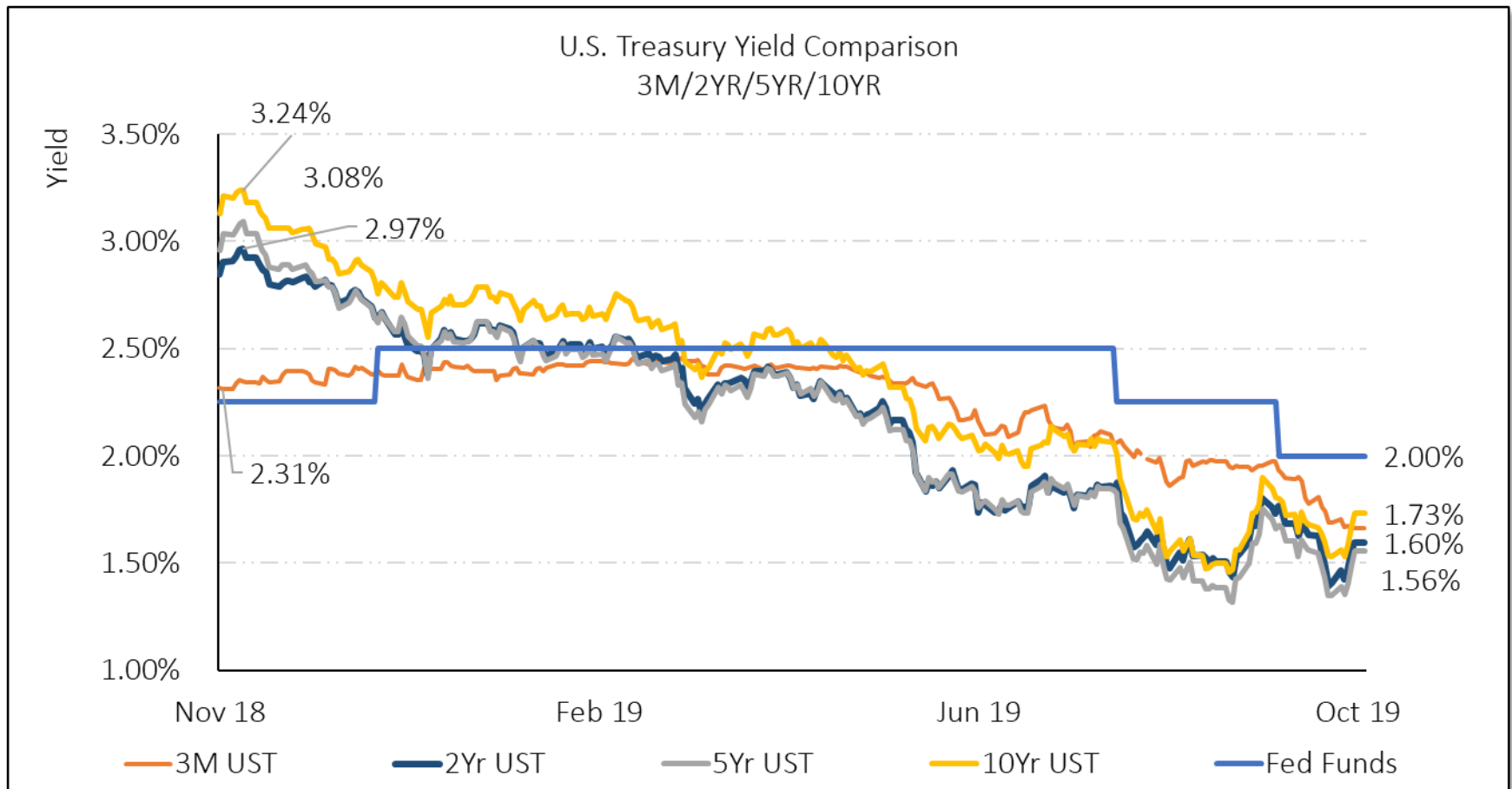
- The Manufacturing and Service sectors of the economy have declined since peaking in summer of 2018.



Source: Bloomberg. See additional footnotes at the end of the presentation.

Federal Funds Rate is Higher than U.S Treasury Securities

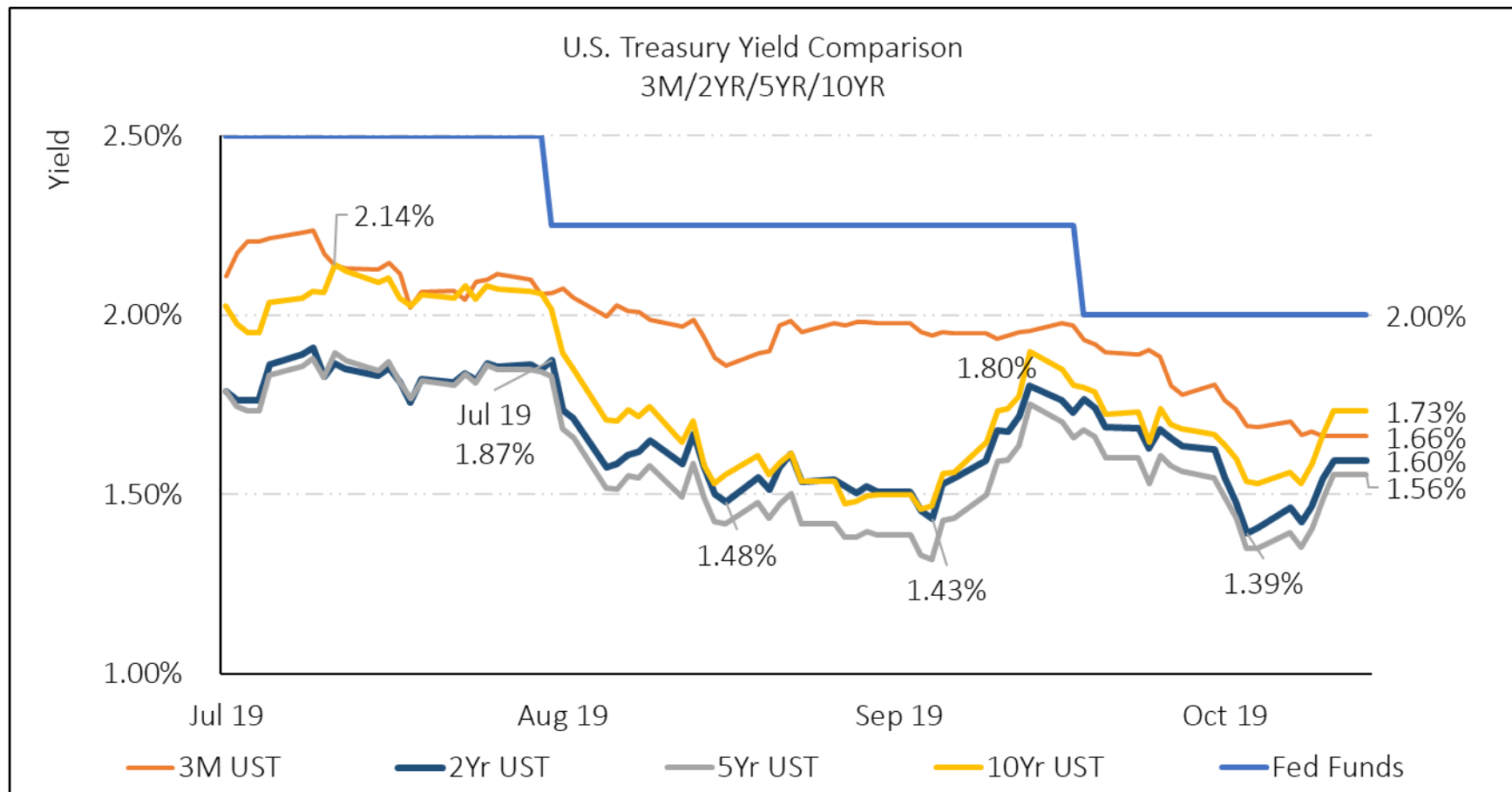
- The Federal Funds overnight rate remains higher than U.S. Treasury securities with maturities 10 years and less.



Source: Bloomberg. See additional footnotes at the end of the presentation.

Federal Funds Rate is Higher than U.S Treasury Securities

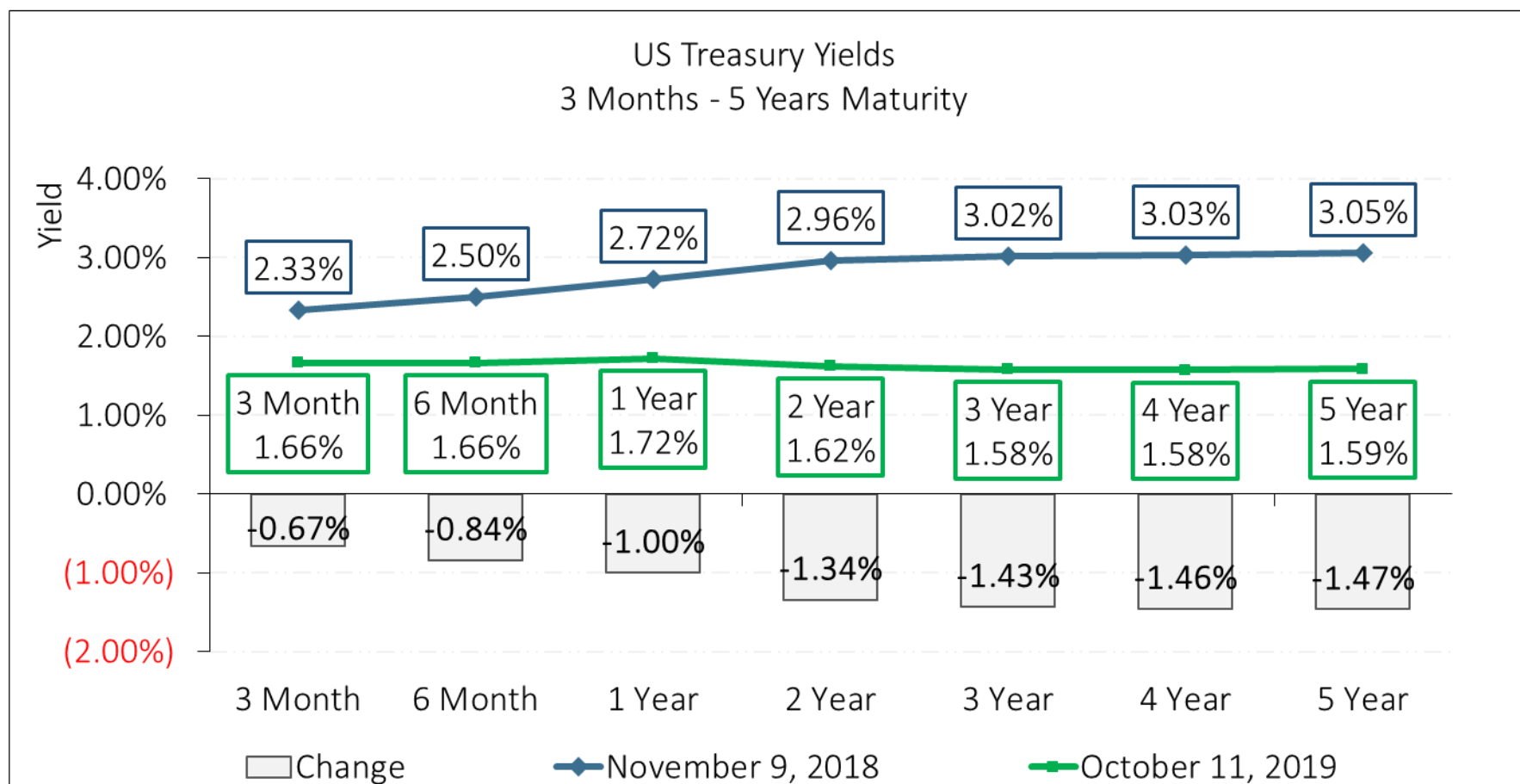
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Yield Curve November 2018 vs. October 2019

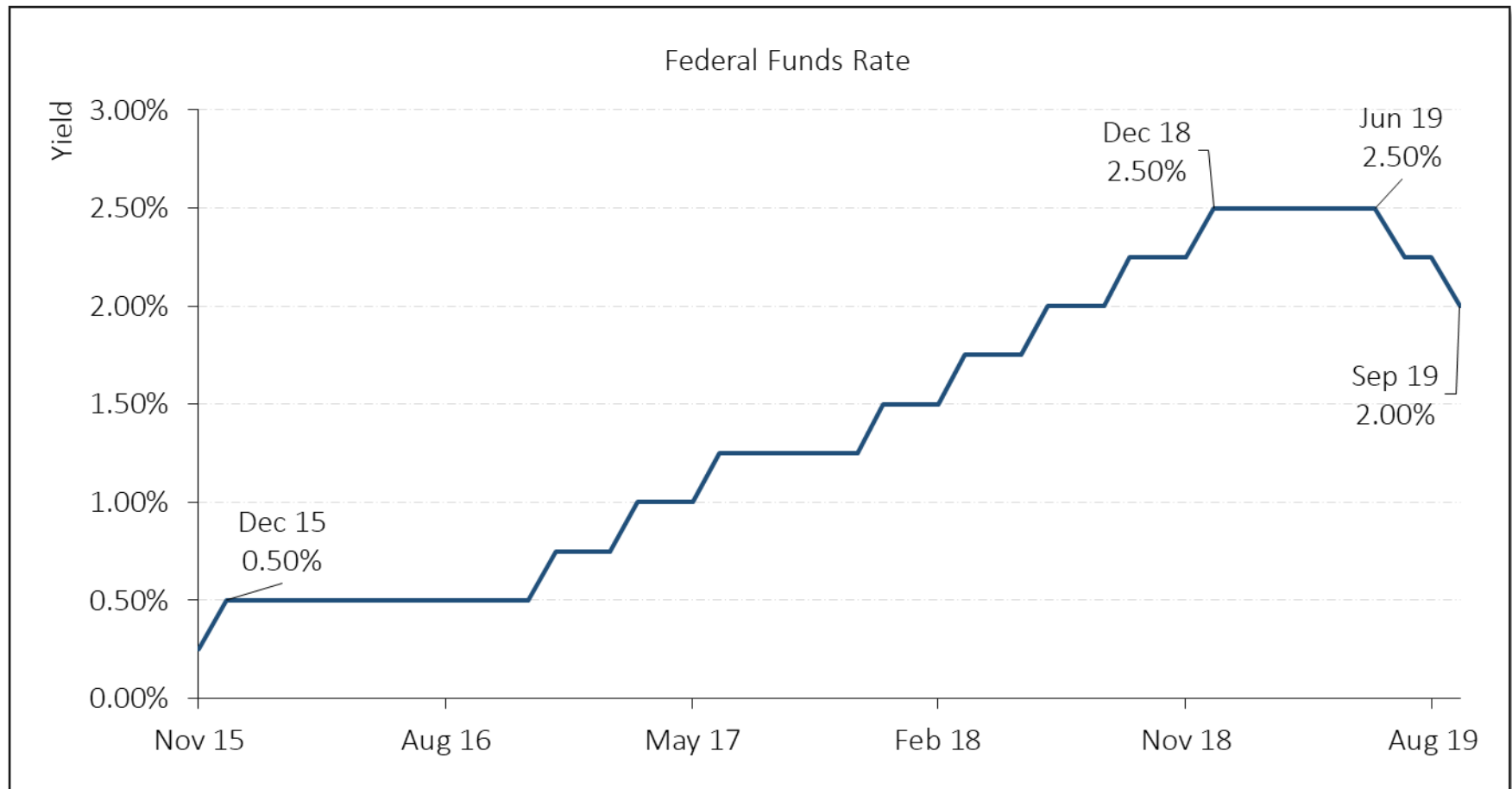
- Interest rates continued to decline during the third quarter of 2019 with rates falling more than a full percentage point since November 2018 for maturities greater than two years.



Source: Bloomberg. See additional footnotes at the end of the presentation.

Federal Funds Rate Hike Current Cycle

- The FOMC is likely to cut the overnight rate during the upcoming October 30th meeting. This would be the third rate cut in 2019.



Source: Bloomberg. See additional footnotes at the end of the presentation.

FOMC Rate Projections – October 2018

- Following September FOMC meeting that resulted in the 2nd Fed Funds rate cut, the market has priced in a 55.8% chance of a rate cut during October FOMC meeting. Also, there is currently a 68% chance of up to four ate hikes in the next six months.

Current Implied Probabilities			3) Add/Remove Rates ▾					
Dates	Meeting	Calculation	Calculated 10/01/2018					
Meeting	Hike Prob	Cut Prob	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25	
11/08/2018	2.0%	0.0%	98.0%	2.0%	0.0%	0.0%	0.0%	
12/19/2018	74.0%	0.0%	26.0%	72.5%	1.5%	0.0%	0.0%	
01/30/2019	75.1%	0.0%	24.9%	70.6%	4.4%	0.1%	0.0%	
03/20/2019	90.5%	0.0%	9.5%	42.3%	45.5%	2.8%	0.0%	
05/01/2019	91.7%	0.0%	8.3%	38.2%	45.1%	8.1%	0.4%	
06/19/2019	95.7%	0.0%	4.3%	23.8%	41.8%	25.8%	4.1%	
07/31/2019	96.0%	0.0%	4.0%	22.3%	40.3%	27.1%	5.8%	
09/18/2019	97.1%	0.0%	2.9%	17.2%	35.4%	30.7%	11.7%	
10/30/2019	97.2%	0.0%	2.8%	16.6%	34.6%	30.9%	12.5%	

Source: Bloomberg. See additional footnotes at the end of the presentation.

FOMC Rate Projections – October 2019

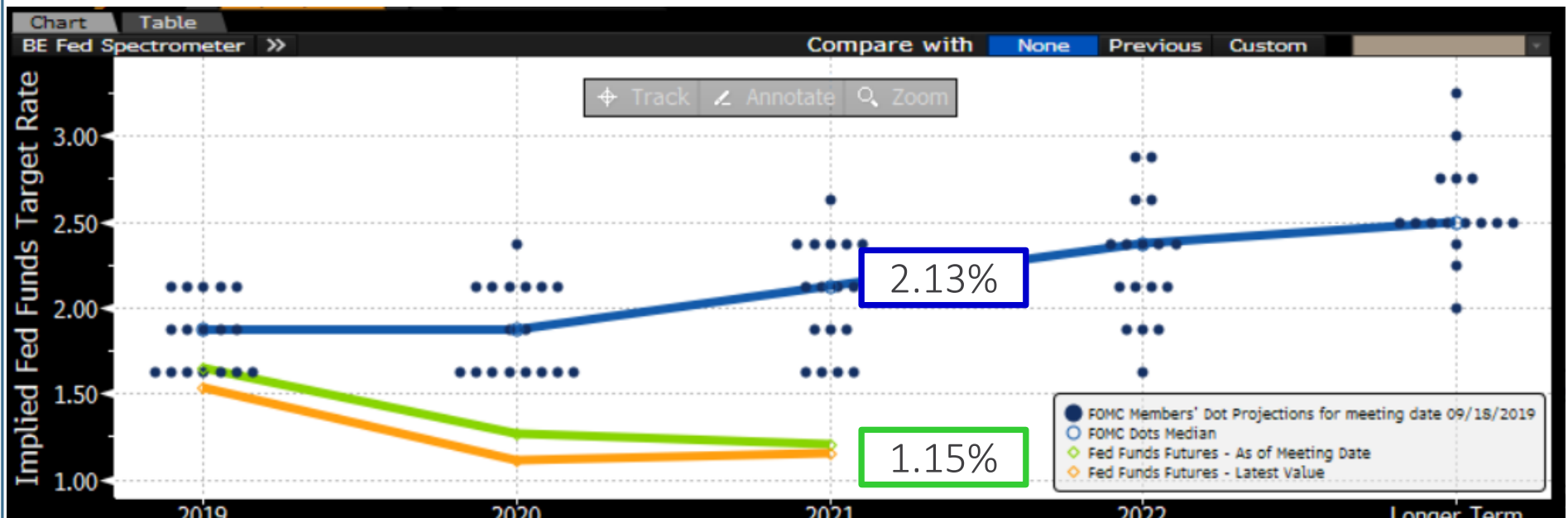
- Following September FOMC meeting that resulted in the 2nd Fed Funds rate cut, the market has priced in a 55.8% chance of a rate cut during October FOMC meeting. Also, there is currently a 44% chance of up to four ate hikes (a Fed Funds rate between 0.75% - 1.25%) by mid 2020.

Current Implied Probabilities				3) Add/Remove Rates ▾				
Dates	Meeting	Calculation		Calculated	10/01/2019		Based on rate	1
Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	
10/30/2019	0.0%	60.5%	0.0%	0.0%	0.0%	60.5%	39.6%	
12/11/2019	0.0%	82.6%	0.0%	0.0%	33.9%	48.7%	17.4%	
01/29/2020	0.0%	90.6%	0.0%	15.6%	40.7%	34.3%	9.4%	
03/18/2020	0.0%	93.2%	4.3%	22.5%	38.9%	27.4%	6.8%	
04/29/2020	0.0%	94.7%	8.4%	26.2%	36.4%	22.8%	5.3%	
06/10/2020	0.0%	95.8%	12.0%	28.3%	33.6%	19.2%	4.2%	
07/29/2020	0.0%	96.5%	14.9%	29.2%	31.1%	16.6%	3.5%	
09/16/2020	0.0%	97.0%	16.8%	29.5%	29.1%	14.8%	3.0%	
11/05/2020	0.0%	97.4%	18.6%	29.4%	27.1%	13.1%	2.6%	

Source: Bloomberg. See additional footnotes at the end of the presentation.

Fed Dot Plot – October 2019

- The FOMC Dot Plot provides an estimate of future expectations regarding the overnight Federal Funds rate. The chart below also presents the Fed Futures rate (market expectations) in the green and orange lines. Currently there is a full percentage point difference in Federal Funds rate expectations between the FOMC and the market.



Source: Bloomberg. See additional footnotes at the end of the presentation.

Portfolio Strategies and Performance Review

Liquidity Portfolio (overnight investments)

- Portfolio value decreasing as balances utilized for ongoing expenses.
- Short term rates continue to provide a competitive return for overnight investments.
- Provide recommendations for Ad Valorem revenues during the fourth quarter of 2019.

Enhanced Cash Portfolio (average maturity .77 years)

- Reinvested proceeds from maturities between 1 – 2 years.
- Proceeds from maturities will continue to be reinvested along the yield curve to protect against potential continued interest rate declines.

1-3 Year Duration Portfolio (average maturity 1.71 years)

- Allocated proceeds from the Liquidity Portfolio to extend duration from 1.19yrs to 1.71 years and invested \$40mm in the 1-3 year portfolio to extend the duration to the longer term strategy.
- Invested in securities with maturities between 2.75 – 4.75 years.
- Pause on the Active management strategy due to inverted yield curve to protect principal.

Historical Performance

- The Enhanced Cash portfolio has been managed according to the shift in market conditions and has out performed the designated benchmark since inception by 9 basis points (1.08% vs. 0.99%).

Total Return Performance	Trailing Month Periodic	Trailing Quarter Periodic	Year to Date Periodic	Since Inception* Annualized
Southwest Florida Water Management District Enh Cash	0.11%	0.59%	2.80%	1.08%
BofA ML US 6-Month Treasury Bill Index	0.17%	0.63%	2.65%	0.99%

- The 1-3 Year portfolio has been managed according to the shift in market conditions and has out performed the designated benchmark since inception by 12 basis points (1.24% vs. 1.12%).

Total Return Performance*	Trailing Month Periodic	Trailing Quarter Periodic	Year to Date Periodic	Since Inception* Annualized
Southwest Florida Water Management District 1-3 Year	0.01%	0.60%	3.86%	1.24%
BofA ML 0-3 Year Treasury/Agency Index	(0.03%)	0.58%	3.82%	1.12%

- The District's investment program is compliant with the investment policy statement and Florida State Statutes. The investments are well diversified and structured to provide the necessary liquidity for District operations.

*Total return since inception date: October 1, 2013. During Fiscal Year 2018/2019 market conditions resulted in a transition temporary passive strategy. Annualized total return performance presented for investment periods longer than one year. Return information obtained from Bloomberg.

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